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Before the
United States Department of Transportation
Washington, D.C.
August 20, 2002

Essential Air Service at

Alamosa, Colorado
Cortez, Colorado
Pueblo, Colorado
Laramie, Wyoming
Rock Springs, Wyoming
Worland, Wyoming

Under 49 U.S.C. §41731 *et seq.*

Docket: OST-1997-2960
Docket: OST-1998-3508
Docket: OST-1999-6589
Docket: OST-1997-2958 - 19
Docket: OST-1997-2959
Docket: OST-1997-2981

Response of Mesa Air Group on Behalf of its wholly-owned subsidiary Air Midwest, Inc. to Request for Proposals 2002-7-34 for Competitive Proposals between Alamosa/Cortez/Pueblo, Colorado, Laramie/Rock Springs/Worland, Wyoming and Denver, Colorado.

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Mesa Air Group, Inc.

Worland_Laramie, WO - Denver
Operated By Air Midwest, Inc. (a wholly owned-subsidiary)

Table Of Contents

Exhibit 1

Mesa Air Group, Inc.

Subsidy Calculation for:
WRL/LAR-DEN
Operated By Air Midwest, Inc. (a wholly-owned subsidiary)

		Explanation
Aircraft	Beech 1900D	
Completed Departures	3,557	See Exhibit 2
Block Hours per Flight	0.89	
Total Block Hours	3,157	See Exhibit 2
Average Seats per Departure	19	
Passengers per Trip	7.1	
Total Passengers	25,109	See Exhibit 2
ASM's	11,163,906	See Exhibit 2
RPMs	3,975,683	See Exhibit 2
Load Factor	35.6%	
Average Fare	$78.33	See Exhibit 2
Revenues		
Passenger Revenue	$2,121,057	See Exhibit 2
Other Revenue	21,211	1% of Passenger Revenue
Total Revenue	$2,142,268	
Direct Expenses		See Exhibit 5:
Crew & Training	$426,195	Cost per BH = $135.00
Fuel & Oil	336,536	Cost per BH = $106.60
Hull Insurance	41,982	Cost per BH = $13.30
Maintenance	793,259	Cost per BH = $251.27
Aircraft Rent	259,161	Cost per BH = $82.09
Total Direct Expenses	$1,857,133	
Indirect Expenses		See Exhibit 5:
Traffic (RPM) Related	$286,249	Cost per RPM = $0.072
Marketing	10,000	EAS Allocation/City = $5,000
Capacity (departure) Related	418,268	Cost per Departure = $117.59
DEN Station Expense	183,776	Cost per Departure = $200.41
Capacity (ASM) Related	111,639	Cost per ASM = $0.01
Total Indirect Expenses	$1,009,932	
Total Operating Expenses	$2,867,065	
Return	143,353	5% of Total Operating Expenses including Marketing Expenses
Operating Profit (Loss)	($868,150)	
Compensation Required	$868,150	
Subsidy per Departure	$244.07	
Subsidy per Passenger	$34.58	

Exhibit 2

MESA AIR GROUP, INC.

Proposed Schedule
WRL/LAR - DEN

Beech 1900D - 19-Seat Aircraft

WRL/LAR - DEN - *Tentative Schedule -> see attachec*

Mileage Calculation

Weekly ASMs	225,990
Annual ASMs	11,751,480
Ann. Completed ASMs	11,163,906

Block Hour Calculation

Weekly Block	63.9
Annual Block	3,323
Ann. Completed Block	3,157

Trip Calculation

Weekly Trips	72
Annual Trips	3,744
Annual Completed Trips	3,557

RPM Calculations

	PAX	AVG	REV	Itin Mileage	RPMs
WRL-DEN	5,198	$106.00	$550,988	330	1,715,340
LAR-DEN	19,811	$79.00	$1,565,069	113	2,238,643
LAR-WRL	100	$50.00	$5,000	217	21,700
	25,109	$78.33	$2,121,057		3,975,683

Annual Completion @ 95%

Exhibit 3

Mesa Air Group, Inc. 1/

Aircraft Operating Expenses - Historical 2/
12-month period ending December 31, 2001
Aircraft type: Beech 1900D

	1Q01	2Q01	3Q01	4Q01	Total	12 Month Average: Cost Per Block Hour	Cost Per Flight Hour	Cost Per Departure	Cost Per Available Seat Mile	Cost Per Revenue Seat Mile
Direct Operating Expense										
Flying Operations:										
Flight Crew:										
Wages	3,289,816	2,774,251	2,866,752	2,236,162	11,166,981	$80.68	$104.31	$74.77	$0.0237	$0.0601
Other	721,002	822,639	540,424	732,620	2,816,685	20.35	26.31	18.86	0.0060	0.0152
Insurance - Hull	113,961	60,337	109,106	188,826	472,230	3.41	4.41	3.16	0.0010	0.0025
Other	376,572	451,556	364,064	505,613	1,697,805	12.27	15.86	11.37	0.0036	0.0091
Total Flying Operations	4,501,351	4,108,783	3,880,346	3,663,221	16,153,701	$116.71	$150.89	$108.15	$0.0343	$0.0869
Fuel and Oil										
Fuel	4,536,828	5,040,771	4,371,033	2,800,588	16,749,220	$121.01	$156.46	$112.14	$0.0355	$0.0901
Oil	15,881	16,011	14,652	11,221	57,765	0.42	0.54	0.39	0.0001	0.0003
Maintenance										
Direct Maintenance	3,660,229	4,988,373	5,665,135	6,472,666	20,786,403	150.18	194.17	139.17	$0.0441	$0.1118
Overhaul reserves	22,295,209	0	0	0	22,295,209	161.08	208.26	149.27	0.0473	0.1199
Maintenance Burden	5,213,930	3,222,305	5,197,942	358,180	13,992,357	101.09	130.70	93.68	0.0297	0.0753
Total Maintenance	31,169,368	8,210,678	10,863,077	6,830,846	57,073,969	$412.35	$533.14	$382.12	$0.1211	$0.3070
Depreciation/Rentals	5,473,952	1,978,080	4,312,768	1,818,695	13,583,495	$98.14	$126.89	$90.94	$0.0288	$0.0731
Total Direct Operating Expense	45,697,380	19,354,323	23,441,876	15,124,571	103,618,150	$748.63	$967.91	$693.75	$0.2199	$0.5574
Indirect Operating Expense:										
Flight Attendants	0	0	0	0	0	$0.00	$0.00	$0.00	$0.0000	$0.0000
Traffic (RPM) Related Expense	3,315,126	3,916,474	3,183,958	2,386,482	12,802,040	92.49	119.59	85.71	0.0272	0.0689
Marketing	0	0	0	0	0	0.00	0.00	0.00	0.0000	0.0000
Capacity (departure) related	5,377,652	4,924,819	4,100,568	3,160,398	17,563,437	126.89	164.06	117.59	0.0373	0.0945
Capacity (ASM) related	183,067	3,805,048	3,640,313	2,244,178	9,872,606	71.33	92.22	66.10	0.0210	0.0531
Total Indirect Operating Expense	8,875,845	12,646,341	10,924,839	7,791,058	40,238,083	$290.71	$375.87	$269.40	$0.0854	$0.2165
Total Operating Expense	54,573,225	32,000,664	34,366,715	22,915,629	143,856,233	$1,039.34	$1,343.79	$963.15	$0.3053	$0.7739

Footnotes:

1/ This proposal is made by Mesa Air Group, Inc. (Mesa) on behalf of Air Midwest, Inc. (Air Midwest). Air Midwest is a wholly-owned subsidiary of Mesa. Flights will be operated by Air Midwest, which operates only Beech 1900D aircraft.

2/ Data from Research and Special Programs Administration's Form 298-C, Schedule F-2, "Report of Aircraft Operating Expenses and Related Statistics."

Exhibit 4

Mesa Air Group, Inc. 1/

Operating and Traffic Statistics - Historical 2/

12-month period ending December 31, 2001

Aircraft type: Beech 1900D

	1Q01	2Q01	3Q01	4Q01	Total
Aircraft Hours Flown	29,576	29,764	27,017	20,696	107,053
Aircraft Miles Flown	6,684,365	6,918,888	6,356,143	4,842,759	24,802,155
Number of Departures Performed	40,559	41,681	37,912	29,208	149,360
Revenue Passenger -Miles	48,553,228	57,554,453	46,829,849	32,954,201	185,891,731
Available Seat-Miles	127,002,935	131,458,872	120,766,717	92,012,421	471,240,945
Revenue Ton-Miles	4,855,323	57,554,453	4,682,985	3,295,420	70,388,181
Available Ton-Miles	18,382,004	19,026,942	17,479,393	13,317,587	68,205,926
Number of Departures Scheduled	42,748	43,002	42,327	30,581	158,658
Number of Scheduled Departures Completed in Passenger Service	40,559	41,681	37,912	29,208	149,360
Block Hours Flown	38,203	38,527	35,129	26,552	138,411

Footnotes:

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2/ Data from Research and Special Programs Administration's Form 298-C, Schedule F-2, "Report of Aircraft Operating Expenses and Related Statistics."

Mesa Air Group, Inc. 1/
Projected Operating Expenses

Market: Worland/Laramie, Wyoming	Unit Basis	Historical unit cost	Adjustment factor 2/	Projected unit cost 3/	Projected units	Projected total cost
Direct Operating Expense						
Flying Operations:						
Flight Crew:						
Wages	Cost Per Block Hour	$80.680	$21.704 a	$102.384	3,157	$323,226
Other	Cost Per Block Hour	$20.350	$12.266 b	32.616	3,157	102,969
Total Flight Crew		$101.030	$33.970	$135.000		$426,195
Insurance - Hull	Cost Per Block Hour	$3.410	$9.888 c	$13.298	3,157	$41,982
Other	Cost Per Block Hour	$12.270	($12.270) d	0.000	3,157	0
Total Flying Operations	Cost Per Block Hour	$116.710	$31.588	$148.298		$468,177
Fuel and Oil						
Fuel	Cost Per Block Hour	$121.010	($14.830) e	$106.180	3,157	$335,210
Oil	Cost Per Block Hour	$0.420	$0.000	0.420	3,157	1,326
Total Fuel and Oil	Cost Per Block Hour	$121.430	($14.830)	$106.600		$336,536
Maintenance						
Direct Maintenance	Cost Per Block Hour	$150.180	$0.000	$150.180	3,157	$474,118
Overhaul reserves	Cost Per Block Hour	$161.080	($161.080) f	0.000	3,157	0
Maintenance Burden	Cost Per Block Hour	$101.090		101.090	3,157	319,141
Total Maintenance	Cost Per Block Hour	$412.350		$251.27		$793,259
Depreciation/Rentals	Cost Per Block Hour	$98.140	($16.049) g	$82.091	3,157	$259,161
Total Direct Operating Expense						$1,857,133
Average Daily Utilization	8.0 Hours					

Footnotes:

1/ This proposal is made by Mesa Air Group, Inc. (Mesa) on behalf of Air Midwest, Inc. (Air Midwest). Air Midwest is a wholly-owned subsidiary of Mesa. Flights will be operated by Air Midwest, which operates only Beech 1900D aircraft.

2/ a Allocation of Employee Benefits to each department, separate from G&A. Also reflects reduced pilot turnover, and therefore, a more senior work force.
b Reallocated from Flight Operations, Other.
c Effects of post 9/11 insurance exposure.
d Reallocated to Flight Crew - Other.
e Reflects lower average fuel price of $0.95 per gallon, utilizing a burn rate of 112.2 gallons per block hour.
f Historical amount is one time accounting charge for aircraft returns.
g Aircraft ownership costs reduced to reflect renegotiated lease rates, and lower depreciation of inventory due to assets held for sale.

3/ Projected costs over the two year period covering the term of the subsidy period.

Exhibit 5

Mesa Air Group, Inc. 1/
Projected Operating Expenses

Market: Worland/Laramie, Wyoming	Unit Basis	Historical unit cost	Adjustment factor 2/		Projected unit cost 3/	Projected units	Projected total cost
Indirect Operating Expense:							
Flight Attendants	na on 19 seat ac						
Traffic (RPM) Related Expense	Cost Per Revenue Seat Mile	$0.069	$0.003	h	$0.072	3,975,683	$286,249
Marketing	per EAS community		$5,000.000	i	$5,000.000	2	10,000
Capacity (departure) related	Cost Per Departure	$117.590	$0.000	j	$117.590	3,557	418,268
DEN Stations expense	Cost Per Departure		$200.410	k	$200.410	917	183,776
Capacity (ASM) related	Cost Per Available Seat Mile	$0.021	($0.011)	l	$0.010	11,163,906	111,639
Total Indirect Operating Expense							$1,009,932
Total Operating Expense							$2,867,065

Footnotes:

1/ This proposal is made by Mesa Air Group, Inc. (Mesa) on behalf of Air Midwest, Inc. (Air Midwest). Air Midwest is a wholly-owned subsidiary of Mesa. Flights will be operated by Air Midwest, which operates only Beech 1900D aircraft.

2/ h Traffic related expense increased $.003 from $.069 to $.072 resulting from $1.40 per pax increase in liability insurance.
- i Advertising expenses related to EAS.
- j Allocation of Employee Benefits to each department, separate from G&A. Reflects adjustment to DEN cost reflecting costs above system average.
- k Increased station costs due to DEN
- l Employee benefits reallocated to each department, separate from G&A.

3/ Projected costs over the two year period covering the term of the subsidy period.

Timetable Report Mesa DEN EAS 4 a/c proposal Oct 2002

Date Range:1234567 01OCT02 07OCT02
Origin(s):DEN WRL
Destination(s):All
Equipment:All
Max legs on path:2
Max flights on path:1
Max longest/shortest distance:2
Max longest-shortest duration:2:00
Max longest/shortest duration:3

FROM DENVER_STAPLETON

Freq	Dep	Arr	Flts	Eqps	Dur	Stp	Dates	Via	Mids
To ALAMOSA_CO									
123456_	9:25	10:23	101	BE1	0:58	0	01OCT02 07OCT02		0
12345_7	16:40	17:38	102	BE1	0:58	0	01OCT02 07OCT02		0
12345_7	20:05	21:03	103	BE1	0:58	0	01OCT02 07OCT02		0
To CORTEZ_CO									
12345__	9:35	10:55	125	BE1	1:20	0	01OCT02 07OCT02		0
_____6_	9:35	10:55	125	BE1	1:20	0	05OCT02 05OCT02		0
12345_7	14:35	15:55	126	BE1	1:20	0	01OCT02 07OCT02		0
12345_7	21:15	22:35	127	BE1	1:20	0	01OCT02 07OCT02		0
To FARMINGTON_NM									
_____6_	9:35	11:30	125	BE1	1:55	1	05OCT02 05OCT02	CEZ	0
12345_7	21:15	23:10	127	BE1	1:55	1	01OCT02 07OCT02	CEZ	0
To LARAMIE_WY									
123456_	9:55	10:40	131	BE1	0:45	0	01OCT02 07OCT02		0
12345_7	14:40	15:25	146	BE1	0:45	0	01OCT02 07OCT02		0
12345_7	20:10	20:55	133	BE1	0:45	0	01OCT02 07OCT02		0
To PUEBLO_CO									
123456_	7:50	8:31	107	BE1	0:41	0	01OCT02 07OCT02		0
12345_7	13:10	13:51	108	BE1	0:41	0	01OCT02 07OCT02		0
12345_7	17:15	17:56	109	BE1	0:41	0	01OCT02 07OCT02		0
To ROCK_SPRINGS_WY									
123456_	9:20	10:36	137	BE1	1:16	0	01OCT02 07OCT02		0
12345_7	14:00	15:16	138	BE1	1:16	0	01OCT02 07OCT02		0
12345_7	20:15	21:31	139	BE1	1:16	0	01OCT02 07OCT02		0
To WORLAND_WY									
123456_	9:55	11:55	131	BE1	2:00	1	[illegible] 07OCT02	LAR	0
12345_7	14:40	16:40	146	BE1	2:00	1	[illegible]	LAR	0
12345_7	20:10	22:10	133	BE1	2:00	1	01OCT02 07OCT02	LAR	0

TO DENVER_STAPLETON

Freq	Dep	Arr	Flts	Eqps	Dur	Stp	Dates	Via	Mids
From ALAMOSA_CO									
123456_	7:15	8:15	106	BE1	1:00	0	01OCT02 07OCT02		0
12345_7	10:40	11:40	105	BE1	1:00	0	01OCT02 07OCT02		0
12345_7	17:55	18:55	104	BE1	1:00	0	01OCT02 07OCT02		0
From CORTEZ_CO									
123456_	6:02	7:15	130	BE1	1:13	0	01OCT02 07OCT02		0
12345__	11:15	12:28	129	BE1	1:13	0	01OCT02 07OCT02		0
______7	11:15	12:28	129	BE1	1:13	0	06OCT02 06OCT02		0
12345_7	16:15	17:28	128	BE1	1:13	0	01OCT02 07OCT02		0
From FARMINGTON_NM									
123456_	5:25	7:15	130	BE1	1:50	1	01OCT02 07OCT02	CEZ	0
______7	10:40	12:28	129	BE1	1:48	1	06OCT02 06OCT02	CEZ	0
From LARAMIE_WY									
123456_	7:32	8:15	135	BE1	0:43	0	01OCT02 07OCT02		0
12345_7	13:20	14:03	136	BE1	0:43	0	01OCT02 07OCT02		0
12345_7	18:10	18:53	150	BE1	0:43	0	01OCT02 07OCT02		0
From PUEBLO_CO									
123456_	8:45	9:24	110	BE1	0:39	0	01OCT02 07OCT02		0
12345_7	14:11	14:50	111	BE1	0:39	0	01OCT02 07OCT02		0
12345_7	18:11	18:50	112	BE1	0:39	0	01OCT02 07OCT02		0
From ROCK_SPRINGS_WY									
123456_	6:04	7:15	140	BE1	1:11	0	01OCT02 07OCT02		0
12345_7	11:05	12:16	141	BE1	1:11	0	01OCT02 07OCT02		0
12345_7	15:35	16:46	142	BE1	1:11	0	01OCT02 07OCT02		0
From WORLAND_WY									
123456_	6:22	8:15	135	BE1	1:53	1	01OCT02 07OCT02	LAR	0
12345_7	12:10	14:03	136	BE1	1:53	1	01OCT02 07OCT02	LAR	0
12345_7	17:00	18:[illegible]	[illegible]	BE1	1:53	1	01OCT02 07OCT02	LAR	0

Mesa Air Group, Inc. ("Mesa" or the "Company") is a holding company whose principle subsidiaries operate as regional air carriers providing scheduled passenger and airfreight service, or as companies primarily in support of its operating airlines. The Company serves 153 cities in 38 states, the District of Columbia, Canada, and Mexico. At September 30, 2001, the Company operated a fleet of 116 aircraft and had approximately 832 daily departures.

Approximately 97% of the Company's consolidated passenger revenues for the fiscal year ended September 30, 2001, were derived from operations associated with code share agreements. The Company's subsidiaries have code share agreements with America West Airlines, Inc. ("America West"), Midwest Express Airlines, Inc. ("Midwest Express"), Frontier Airlines, Inc. ("Frontier") and five separate code share agreements with US Airways, Inc. ("US Airways"). These code share agreements allow use of the code share partner's reservation system and flight designator code to identify flights and fares in computer reservation systems, permit use of logos, service marks, aircraft paint schemes and uniforms similar to the code share partners and provide coordinated schedules and joint advertising. Certain of these agreements also provide for generally favorable fixed fee and cost reimbursement terms that mitigate certain of the economic risks inherent in the Company's airline's operations.

In addition to carrying passengers, the Company carries freight and express packages on its passenger flights and has interline small cargo freight agreements with many other carriers. The Company also has contracts with the U.S. Postal Service for carriage of mail to the cities it serves and occasionally operates charter flights when aircraft are not otherwise used for scheduled service.

The Company's airline operations are conducted by three airline subsidiaries:

- Mesa Airlines, Inc. ("MAI") operates regional jet and turboprop aircraft as America West Express under a code share agreement with America West, primarily at America West's Phoenix and Columbus hubs. It also operates regional jets as US Airways Express under a code share agreement with US Airways, primarily at US Airways' hubs in Philadelphia, Pittsburgh, Charlotte and Washington National Airports.

- Air Midwest, Inc. ("Air Midwest") operates Beechcraft 1900D 19-seat turboprops as US Airways Express under separate code share agreements with US Airways at US Airways' hub operations in Pittsburgh, Philadelphia, Kansas City and Tampa. In February 2001, the Company entered into an agreement wherein Air Midwest's flights in Kansas City code share with Midwest Express Airlines as well as US Airways. Air Midwest also operates as Mesa Airlines from a hub in Albuquerque. The Albuquerque hub operation is an "Independent Operation" and is not subject to a code sharing agreement with a major carrier.

- CCAIR, Inc. ("CCAIR") operates turboprop aircraft as US Airways Express under a code share agreement with US Airways at US Airways' Charlotte hub.

Unless the context indicates otherwise, the terms "Mesa," "the Company," "we," "us," or "our," refer to Mesa Air Group, Inc. and its subsidiaries.

Aircraft in Operation

The following table lists the aircraft owned and leased by Mesa for scheduled operations as of December 31, 2001:

Type of Aircraft	Owned	Leased	Total	Operating on December 31, 2001	Passenger Capacity
Canadair Regional Jet	--	32	32	32	50
Embraer Regional Jet	--	23	23	23	50
Beechcraft 1900D	51	8	59	40	19
Jet Stream Super 31	--	9	9	5(1)	19
Dash 8-100	--	7	7	5	37
Dash 8-200	--	12	12	12	37
Embraer EMB-120	--	6	6	--	30
	51	97	148	117	

(1) At September 30, 2001, Management decided to stop operating these aircraft in February 2002.

Code Share Agreements

The Company's airline subsidiaries have agreements with America West and US Airways to use those major carri designation codes (commonly referred to as a "code share"). These code share agreements allow use of the code share partner's res ion system and flight designator code to identify flights and fares in computer reservation systems, permit use of logos, service ks, aircraft paint schemes and uniforms similar to the code share partners and provide coordinated schedules and joint a ising. The Company's passengers traveling on flights operated pursuant to code share agreements receive mileage credits in respective frequent flyer programs of the Company's code share partners, and credits in those programs can be used on flights ated by the Company. Approximately 97% of the Company's consolidated passenger revenues for the year ended September 2001, were derived from operations associated with code share agreements. The Company's subsidiaries have a code share a ments with America West, Midwest Express Airlines, Frontier Airlines and US Airways.

Marketing

The Company's flight schedules are structured to facilitate the connection of its passengers with flights of its code s partners at their hub airports and to maximize local and connecting service to other carriers in Albuquerque.

Under the Company's US Airways Express turboprop operations, the Company's market selection process foll an in-depth analysis on a route-by-route basis and is followed by a review and approval process in a joint effort with US Airwa garding the level of service and fares. The Company believes that this selection process enhances the likelihood of profitability in en market.

Under the America West Express Contract Agreement and the US Airways Express regional jet Contract Ag ent, market selection, pricing and yield management functions are performed by America West and US Airways, respectively. Company's role is simply to operate its fleet in the safest and most reliable manner in exchange for fees paid under a generall ed payment schedule. The Company intends to expand its operations performed pursuant to these Contract Agreements.

Under the Company's code share agreements, the code share partner coordinates advertising and public rela within their respective regions. In addition, the Company's prorate traffic is impacted by the major airline partners' advertising pr ns in regions outside those served by the Company, with the major partners' customers becoming customers of the Company as a lt of through fares. Under Prorate code share arrangements, the Company's passengers also benefit from through fare ticketin th the major airline partners and greater accessibility to the Company's flights on computer reservation systems and in the Official ne Guide.

The Company's Prorate Agreement and Independent Operation flights are promoted through, and the Compa revenues are generally believed to benefit from, listings in computer reservation systems, the Official Airline Guide and through contact with travel agencies and corporate travel departments. The Company participates in shared advertising with resort a ntal property operators and ski areas in leisure markets in which it operates. The Company's non-code share operation u s SABRE, a computerized reservation system widely used by travel agents, corporate travel offices and other airlines. The rese n systems of the Company's code share partners are also utilized in each of the Company's other operations through their res e code share agreements. The Company also pays booking fees to owners of other computerized reservation systems based e number of independent and prorate passengers booked by travel agents using such systems. The Company believes that it has relationships with travel agents serving its passengers.

Maintenance of Aircraft and Training

All mechanics and avionics specialists employed by the Company have the appropriate training and exper and hold the required licenses issued by the Federal Aviation Administration ("FAA"). Using a combination of FAA-certified m nance vendors and its own personnel and facilities, the Company maintains its aircraft on a scheduled and "as-needed" ba The Company emphasizes preventive maintenance and inspects its aircraft engines and airframes as required. The Company maintains an inventory of spare parts specific to the aircraft types it flies. The Company provides periodic in-house and out raining for its maintenance and flight personnel and also takes advantage of factory training programs that are offered when acqui ew aircraft.

Insurance

The Company carries types and amounts of insurance customary in the airline industry, including coverage ublic liability, passenger liability, property damage, product liability, aircraft loss or damage, baggage and cargo liability and workers' compensation.

As a result of the terrorist attacks on September 11, 2001, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for war-risk coverage. In addition, the insurance carriers have significantly increased the premiums for this coverage as well as for aviation insurance in general. Under the terms of the Company's code share agreement with America West, and its regional jet service agreement with US Airways, insurance costs are reimbursed. Given the significant increase in insurance costs, the federal government is providing insurance assistance under the Air Transportation Safety and System Stabilization Act. In addition, the federal government has issued war-risk coverage to U.S. air carriers for renewable 30-day periods. However, the availability of aviation insurance is not guaranteed and the inability of the Company to obtain such coverage may result in the grounding of its aircraft.

Employees

As of September 30, 2001, the Company employed approximately 2,800 employees. The Company's continued success is partly dependent on its ability to continue to attract and retain qualified personnel. Historically, the Company has had no difficulty attracting qualified personnel to meet its requirements. The Company believes that relations with its employees are favorable.

Pilot turnover at times is a significant issue among regional carriers when major carriers are hiring experienced commercial pilots away from regional carriers. The addition of aircraft, especially new aircraft types, can result in pilots upgrading between aircraft types and becoming unavailable for duty during the extensive training periods required. No assurances can be made that pilot turnover and unavailability will not again be a significant problem in the future, particularly if major carriers expand their operations. Similarly, there can be no assurance that sufficient numbers of new pilots will be available to support any future growth.

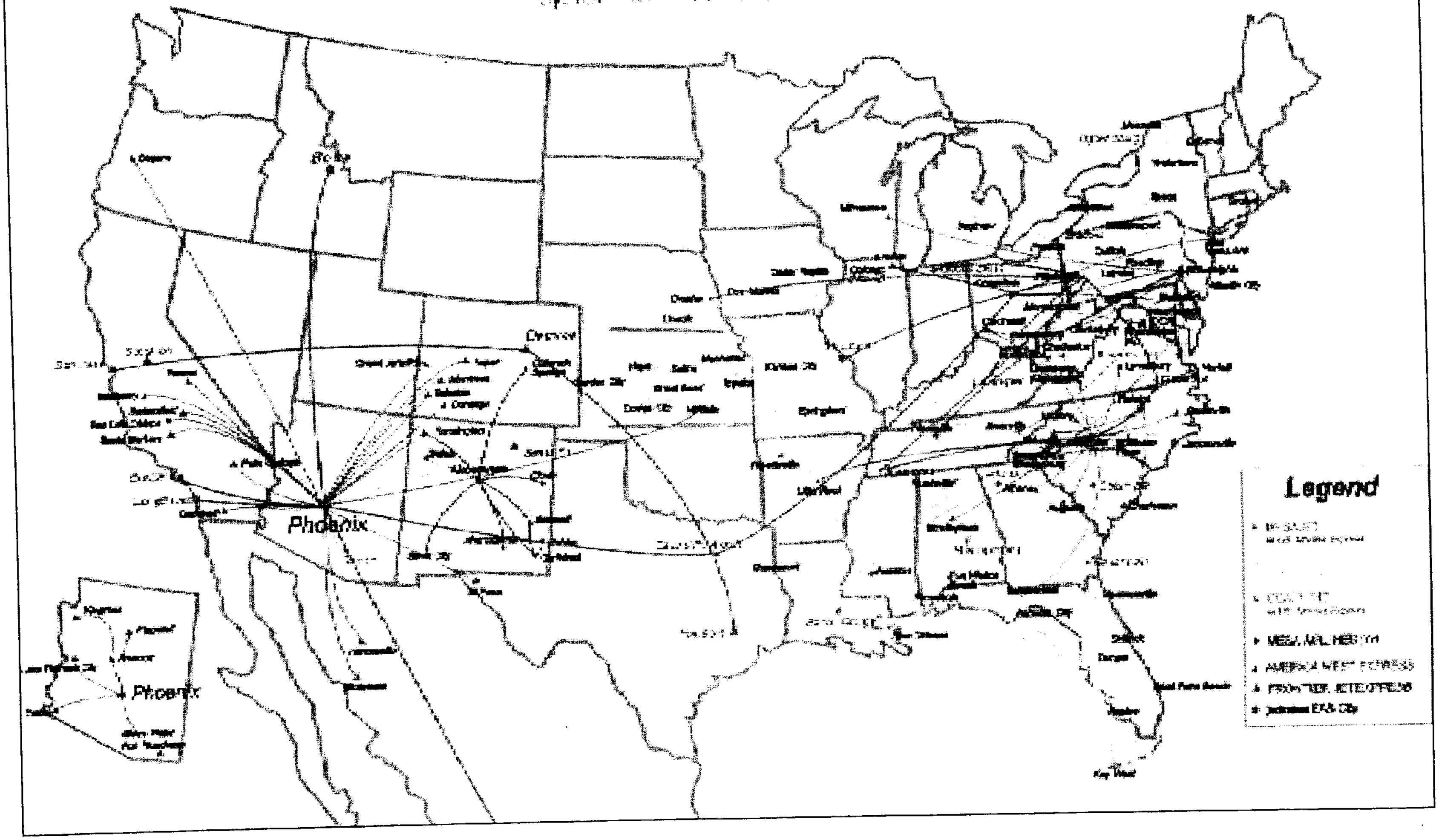
During December 1996, the Company reached a five-year agreement, expiring in December 2001, with the Air Line Pilots Association ("ALPA") for a single pilot contract for MAI and Air Midwest. The Company expects to commence contract negotiations with pilots for MAI and Air Midwest in early 2002. Air Midwest mechanics are represented by the International Association of Machinists ("IAM"). The current agreement with the IAM is amendable on March 31, 2002. MAI's flight attendants are represented by the Association of Flight Attendants ("AFA"). The AFA contract is amendable on June 13, 2003.

CCAIR has three organized employee groups. ALPA represents the pilots, AFA represents the flight attendants and the International Brotherhood of Teamsters ("Teamsters") represents the mechanics and stock clerks. The ALPA agreement was renewed on November 6, 1998, and becomes amendable on October 31, 2002. The AFA agreement was renewed on May 16, 1996, and becomes amendable on June 13, 2003. The Teamsters mechanics contract was ratified on July 15, 1998, and becomes amendable on December 31, 2001. The Teamsters stock clerks contract was ratified July 31, 2000 and becomes amendable on December 31, 2003.

No other Mesa subsidiaries are parties to any other collective bargaining agreement or union contracts.

Approximately 60% of the Company's workforce is subject to collective bargaining agreements.

System effective February 2002



Selected Financial Data and Operating Statistics

The selected financial data as of and for each of the five years ended September 30, 2001, are derived from the Consolidated Financial Statements of the Company and its subsidiaries and should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Form 10-K and the related notes thereto and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." The Consolidated Financial Statements of the Company for the fiscal years ended September 30, 2001 and 2000, have been audited by Deloitte & Touche LLP, independent auditors. The Consolidated Financial Statements of the Company for the fiscal years ended September 30, 1999, 1998 and 1997, have been audited by KPMG LLP, independent auditors.

In thousands of dollars except per share data and average fare amounts and as otherwise indicated.

Years Ended:	2001(1)	2000(2)	1999(3)	1998(4)	1997(5)
Operating revenues	$ 523,378	$ 471,612	$ 404,616	$ 494,866	$ 579,464
Operating expenses	$ 594,020	$ 429,798	$ 402,487	$ 533,910	$ 634,805
Operating income (loss)	$ (70,642)	$ 41,814	$ 2,129	$ (39,044)	$ (55,341)
Interest expense	$ 13,469	$ 15,463	$ 19,096	$ 25,382	$ 28,518
Income (loss) before income taxes	$ (71,375)	$ 28,031	$ (12,815)	$ (58,229)	$ (80,704)
Net income (loss)	$ (48,076)	$ 58,872	$ (13,412)	$ (50,467)	$ (50,326)
Net (loss) per share:					
Basic	$ (1.50)	$ 1.78	$ (0.40)	$ (1.50)	$ (1.52)
Diluted	$ (1.50)	$ 1.77	$ (0.40)	$ (1.50)	$ (1.52)
Working capital (deficit)	$ 83,896	$ 65,436	$ 33,040	$ (1,446)	$ 64,940
Total assets	$ 423,986	$ 386,594	$ 403,773	$ 484,376	$ 677,837
Long-term debt, excluding current portion	$ 117,950	$ 135,533	$ 114,234	$ 245,100	$ 341,463
Stockholders' equity	$ 103,126	$ 144,574	$ 96,435	$ 108,649	$ 183,445
Net book value per share	$ 3.12	$ 4.48	$ 2.83	$ 2.95	$ 5.09
Passengers carried	4,789,180	4,457,989	4,255,696	5,969,104	7,514,644
Revenue passenger miles (000)	1,796,058	1,561,197	1,324,867	1,407,345	1,544,212
Available seat miles ("ASM") (000)	3,289,216	2,951,116	2,594,861	2,581,946	2,789,575
Average passenger journey in miles	375	350	311	236	205
Average stage length in miles	268	250	225	190	178
Load factor	54.6%	52.9%	51.1%	54.5%	55.4%
Break-even passenger load factor	63.8%	48.5%	52.7%	60.1%	60.2%
Revenue per ASM in cents	15.9	16.0	15.3	18.7	20.4
Operating cost per ASM in cents	18.1	14.6	15.5	20.7	22.8
Average yield per revenue passenger mile in cents	28.8	30.2	30.1	34.3	36.8
Average fare	$ 106.18	$ 103.45	$ 93.59	$ 80.91	$ 75.56
Aircraft in service	118	133	140	138	204
Cities served	153	120	138	134	189
Number of employees	2,820	3,480	3,423	3,241	5,445

(1) Net loss in fiscal 2001 includes the effect of an impairment and restructuring charge of $80.9 million (pretax).

(2) Net earnings in fiscal 2000 include the cumulative effect of the accounting change from the accrual method to the direct expense method for maintenance costs of $18.1 million (pretax) and the benefit of reversing a valuation allowance for deferred tax assets of $21.9 million.

(3) Mesa as of and for the twelve months ended September 30, 1999, CCAIR as of and for the twelve months ended September 30, 1999. Net loss in fiscal 1999 includes the effect of an impairment and restructuring charge of $28.9 million and the reversal of a previous charge for the cancellation of the UAL code share agreement of $14.0 million (pretax).

(4) Mesa as of and for the twelve months ended September 30, 1998, CCAIR as of and for the twelve months ended December 31, 1998

(5) Mesa as of and for the twelve months ended September 30, 1997, CCAIR as of and for the twelve months ended June 30, 1997

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Mesa Air Group, Inc.
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Mesa Air Group, Inc. and subsidiaries (the "Company") as of September 30, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2001 and 2000, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements substantially all of the Company's passenger revenue is derived from code share agreements with America West and US Airways.

As discussed in Note 4 to the financial statements, effective October 1, 1999, the Company changed its method of accounting for certain maintenance costs.

DELOITTE & TOUCHE LLP

Phoenix, Arizona
December 19, 2001

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Mesa Air Group, Inc.:

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows for the year ended September 30, 1999 of Mesa Air Group, Inc. and subsidiaries. This consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statement referred to above presents fairly, in all material respects, the results of operations and cash flows for the year ended September 30, 1999 of Mesa Air Group, Inc. and subsidiaries, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Phoenix, Arizona
January 20, 2000

PART 1. FINANCIAL INFORMATION
MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended September 30,		
	2001	2000	1999
	(In thousands, except per share amounts)		
Operating revenues:			
Passenger	$ 508,518	$ 461,159	$ 398,206
Freight and other	14,860	10,453	6,410
Total operating revenues	523,378	471,612	404,616
Operating expenses:			
Flight operations	270,802	221,788	173,367
Maintenance	100,302	83,113	76,309
Aircraft and traffic servicing	53,246	53,489	55,675
Promotion and sales	22,233	26,547	32,550
General and administrative	52,904	29,231	31,658
Depreciation and amortization	13,680	15,630	18,053
Impairment and restructuring charges	80,853	—	28,902
Other operating items	—	—	(14,027)
Total operating expenses	594,020	429,798	402,487
Operating income (loss)	(70,642)	41,814	2,129
Other income (expense):			
Interest expense	(13,469)	(15,463)	(19,096)
Interest income	1,822	2,371	2,166
Other income (expense)	10,914	(691)	1,986
Total other expense	(733)	(13,783)	(14,944)
Income (loss) before income taxes and cumulative effect of accounting change	(71,375)	28,031	(12,815)
Income taxes (benefit)	(23,299)	(12,756)	597
Income (loss) before cumulative effect of accounting change	(48,076)	40,787	(13,412)
Cumulative effect of accounting change, net of $0 applicable income taxes	—	18,085	—
Net income (loss)	$ (48,076)	$ 58,872	$ (13,412)
Income (loss) per common share — basic:			
Income (loss) before cumulative effect of accounting change	$ (1.50)	$ 1.23	$ (.40)
Cumulative effect of accounting change, net	—	.55	—
Net income (loss)	$ (1.50)	$ 1.78	$ (.40)
Income (loss) per common share — diluted:			
Income (loss) before cumulative effect of accounting change	$ (1.50)	$ 1.23	$ (.40)
Cumulative effect of accounting change, net	—	.54	—
Net income (loss)	$ (1.50)	$ 1.77	$ (.40)

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2001	September 30, 2000
	(In thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 74,504	$ 26,403
Marketable securities	8,793	7,681
Receivables, primarily traffic, net	29,449	41,192
Expendable parts and supplies, net	31,449	27,716
Aircraft and parts held for sale	63,161	38,844
Prepaid expenses and other current assets	16,392	9,140
Deferred income taxes	17,264	8,527
Total current assets	241,012	159,503
Property and equipment, net	122,431	188,045
Lease and equipment deposits	21,277	23,557
Intangible assets, less accumulated amortization of $5,981	—	10,014
Deferred income taxes	23,600	4,822
Aircraft held for sale	13,100	—
Other assets	2,566	653
Total assets	$ 423,986	$ 386,594
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 52,927	$ 45,146
Note payable — bank	20,000	—
Accounts payable	45,193	24,066
Air traffic liability	3,506	3,445
Accrued compensation	3,893	3,056
Income taxes payable	—	2,214
Other accrued expenses	31,597	16,140
Total current liabilities	157,116	94,067
Long-term debt, excluding current portion	117,950	135,533
Deferred credits	45,155	11,641
Other noncurrent liabilities	639	779
Total liabilities	320,860	242,020
Commitments and contingencies (notes 2, 6, 8, 11, 15, 16, 17 and 23)		
Stockholders' equity:		
Common stock of no par value, 75,000,000 shares authorized; 33,049,183 and 32,286,303 shares issued and outstanding	119,387	112,759
Retained earnings (accumulated deficit)	(16,261)	31,815
Total stockholders' equity	103,126	144,574
Total liabilities and stockholders' equity	$ 423,986	$ 386,594

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
	2001	2000	1999
		(In thousands)	
Cash Flows from Operating Activities:			
Net income (loss)	$ (48,076)	$ 58,872	$ (13,412)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
Depreciation and amortization	13,680	15,630	18,053
Provision for cancellation of code share agreements and other operating items	—	—	(14,027)
Impairment and restructuring charges	80,853	—	28,902
Cumulative effect of change in accounting principle	—	(18,085)	—
Deferred income taxes	(24,068)	(13,350)	—
Loss on disposal of property and equipment	—	—	164
Unrealized (gain) loss on investment securities	7,960	534	(1,213)
Amortization of deferred credits	(3,209)	(2,024)	(529)
Provision for doubtful accounts	14,327	235	159
Provision for obsolete expendable parts and supplies	648	—	—
Changes in assets and liabilities:			
Receivables	(2,584)	(11,095)	(1,865)
Expendable parts and supplies	(3,634)	(2,989)	6,960
Prepaid expenses and other current assets	(5,707)	3,599	(5,938)
Accounts payable	21,127	3,236	4,721
Income taxes	(2,721)	—	9,057
Other accrued liabilities	(3,562)	(3,341)	731
NET CASH PROVIDED BY OPERATING ACTIVITIES	45,034	31,222	31,763
Cash Flows from Investing Activities:			
Capital expenditures	(33,545)	(40,245)	(16,140)
Proceeds from sale of property and equipment	—	—	50,637
Net purchases of investment securities	(9,072)	(4,908)	(2,093)
Change in other assets	302	(865)	1,559
Lease and equipment deposits	(1,820)	(465)	(11,800)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(44,135)	(46,483)	22,163
Cash Flows from Financing Activities:			
Principal payments on long-term debt	(8,802)	(8,062)	(37,997)
Net borrowings on line of credit	20,000	—	—
Proceeds from issuance of common stock	9,951	51	1,308
Common stock purchased and retired	(6,770)	(10,784)	—
Payment from aircraft manufacturer in deferred credits	25,207	—	—
Change in deferred credits	7,616	7,554	—
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	47,202	(11,241)	(36,689)
NET CHANGE IN CASH AND CASH EQUIVALENTS	48,101	(26,502)	17,237
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	26,403	52,905	35,668
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 74,504	$ 26,403	$ 52,905
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest, net of amounts capitalized	$ 14,912	$ 15,992	$ 15,702
Cash paid for income taxes	3,559	—	—
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Return of aircraft for reduction of long-term debt and accrued interest	$ —	$ 46,263	$ —
Acquisition of property and equipment financed with note to seller	—	—	1,100
Inventory credits received in conjunction with aircraft financing	3,900	—	—

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended September 30, 2001, 2000, and 1999	Number of Shares	Common Stock	Retained Earnings (Accumulated Deficit)	Total
	(In thousands, except number of shares)			
Balance at October 1, 1998	33,727,340	$ 122,174	$ (13,525)	$ 108,649
Exercise of stock options	470,412	1,308	—	1,308
Tax benefit — stock compensation	—	10	—	10
Net loss	—	—	(13,412)	(13,412)
CCAIR, Inc. net loss for the quarter ended December 31, 1998	—	—	(120)	(120)
Balance at September 30, 1999	34,197,752	123,492	(27,057)	96,435
Exercise of stock options	50,951	51	—	51
Common stock purchased and retired	(1,962,400)	(10,784)		(10,784)
Net income	—	—	58,872	58,872
Balance at September 30, 2000	32,286,303	112,759	31,815	144,574
Exercise of stock options	1,531,000	9,951	—	9,951
Common stock purchased and retired	(768,120)	(6,770)	—	(6,770)
Tax benefit — stock compensation	—	3,447	—	3,447
Net loss	—	—	(48,076)	(48,076)
Balance at September 30, 2001	33,049,183	$ 119,387	$ (16,261)	$ 103,126

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended September 30, 2001, 2000 and 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Organization

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of Mesa Air Group, Inc. and its wholly-owned subsidiaries (collectively Mesa or the Company): Mesa Airlines, Inc. ("MAI"), a Nevada corporation and certificated air carrier; WestAir Holdings, Inc., a California corporation and owner of certificated air carrier WestAir Commuter Airlines, Inc. (WestAir Commuter Airlines, Inc. ceased operations in 1998); Air Midwest, Inc. ("Air Midwest"), a Kansas corporation and certificated air carrier; CCAIR, Inc. ("CCAIR"), a Delaware corporation and certificated air carrier; MPD, Inc., a Nevada corporation, doing business as Mesa Pilot Development; FCA, Inc., a Nevada Corporation, doing business as Four Corners Aviation (in fiscal 1999, substantially all of the assets of FCA, Inc. were sold and FCA, Inc. ceased operations); Mesa Leasing, Inc., a Nevada corporation; UFLY, LLC., a Delaware Limited Liability Company and MAGI Insurance, Ltd., a Barbados, West Indies based captive insurance company. MPD, Inc. provides pilot training in coordination with a community college. MAGI Insurance, Ltd. is a captive insurance company created to handle freight and baggage claims in addition to a portion of the Company's aviation insurance. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company's airline subsidiaries have agreements (commonly referred to as "code share") with America West, US Airways and Midwest Express Airlines, Inc. ("Midwest Express") to provide scheduled airline service using the branding and many of the marketing functions and benefits of the code share partner.

The America West agreement and the US Airways regional jet agreement are Cost Plus agreements, wherein the Company receives guaranteed payments for each flight operated, based on the terms of the contracts. Certain variable costs such as fuel and landing fees are reimbursed by the Company's partners under these Cost Plus agreements.

The Company also has turboprop prorate code share agreements with US Airways and Midwest Express, in which the Company is allocated a portion of each passenger's fare based on a standard industry formula, and requires the Company to pay all of the costs of transporting the passenger.

Renewal of one code share agreement with a code share partner does not guarantee the renewal of any other code share agreement with the same code share partner. The agreement with America West expires in 2012, the agreements with US Airways expire on various dates from 2003 to 2008 and the agreement with Midwest Express expires in 2006. Although the provisions of the code share agreements vary from contract to contract, generally each agreement is subject to cancellation should the Company's subsidiaries fail to meet certain operating performance standards, breach other contractual terms and conditions and, in the case of the US Airways code share agreements upon six months notice by either party. The US Airways regional jet service agreement and the Kansas City code share agreement are not subject to the six month cancellation clause.

The Company also operates as Mesa Airlines from a hub in Albuquerque, New Mexico. The Albuquerque hub operation does not have a code share agreement.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Marketable Securities

Marketable securities consist of shares of common stock and are stated at market value as determined by the most recently traded price of each security at the balance sheet date. All marketable securities are defined as trading securities under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

Receivables and Concentration of Risk

The passenger tickets collected by the Company at the time of travel are primarily sold by the code share partners as discussed above. As a result, the Company has a significant concentration of its accounts receivable tied to its relationship with its code share partners. See discussion in Note 2.

Expendable Parts and Supplies

Expendable parts and supplies are stated at the lower of cost using the first-in, first-out method or market, and are charged to expense as they are used.

Aircraft and Parts Held for Sale

Aircraft and parts held for sale is comprised of aircraft the Company has identified as surplus as well as expendable and rotable inventory that is in excess of the Company's needs. The Company has identified 21 B1900D turboprop aircraft as held for sale at September 30, 2001. The Company currently has contracts to return 15 of these aircraft to the manufacturer on various dates in 2001 and 2002. The aircraft under contract to be returned are valued at the contract price, less the cost to return the aircraft to meet the manufacturer's return conditions. Aircraft not under contract, expendable inventory and rotable inventory have been written down to their estimated net realizable value based upon appraisal, less costs to sell.

Property and Equipment

Property and equipment are stated at cost and depreciated over their estimated useful lives to their estimated salvage values using the straight line method.

Estimated useful lives of the various classifications of property and equipment are as follows:

Buildings	30 years
Flight equipment	7-20 years
Equipment	5-12 years
Furniture and fixtures	3-5 years
Vehicles	5 years
Rotable inventory	Life of the aircraft or term of the lease
Leasehold improvements	Life or term of lease, whichever is less

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Certain long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Interest related to deposits on aircraft purchase contracts is capitalized as part of the aircraft. The Company capitalized approximately $1.1 million and $1.5 million of interest in fiscal 2001 and 2000, respectively.

Intangible Assets

The Company evaluates the recoverability of its intangible assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with such assets. At the time such evaluations indicate that the future undiscounted cash flows are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company and its subsidiaries file a consolidated federal income tax return.

Deferred Credits

Deferred credits consist of lease incentives received at lease inception and other credits related to the aircraft and are amortized on a straight-line basis as a reduction of lease expense over the term of the respective leases.

Revenue Recognition

Revenue is recognized when transportation is provided. Pursuant to Prorate Agreements and in the Independent Operation, tickets sold but not yet used are included in air traffic liability. The Company receives subsidies for providing scheduled air service to certain small or rural communities. Such revenue is recognized in the period in which the air service is provided. The amount of the subsidy payments is determined by the United States Department of Transportation on the basis of its evaluation of the amount of revenue needed to meet operating expenses and to provide a reasonable return on investment with respect to eligible routes.

Maintenance Expense

The cost of maintenance is charged to expense as incurred. Effective October 1, 1999, the Company elected to change its method of accounting for engine and airframe maintenance costs on its Canadair regional jet aircraft and engine maintenance on its Dehavilland Dash 8-200 aircraft from the accrual method to the direct expense method (see note 4). The Company now uses the direct expense method for all maintenance. Prior to the change, the Company used the accrual method for these aircraft.

Earnings (Loss) Per Share

The Company accounts for earnings (loss) per share in accordance with SFAS No. 128, "Earnings per Share." Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the periods presented. Diluted net income per share reflects the potential dilution that could occur if outstanding stock options were exercised. The calculation of the weighted average number of shares outstanding is as follows:

	Years Ended September 30,		
	2001	2000	1999
		(In thousands)	
Weighted average shares outstanding-basic	32,065	33,109	33,826
Effect of dilutive outstanding stock options	—	81	—
Weighted average shares outstanding-diluted	32,065	33,190	33,826

The effect of certain options to purchase 363,000 and 605,000 shares of common stock in fiscal 2001 and 1999 would have been antidilutive to the per share calculation. Accordingly, those options were excluded from the calculation.

Stock Options

The Company accounts for its stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Effective October 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize the fair value of all stock-based awards on the date of grant over the vesting period. Alternatively, SFAS No. 123 also allows entities to continue to apply the measurement provisions of APB Opinion No. 25 and provide pro forma net earnings and pro-forma earnings per share disclosures for employee stock option grants made in fiscal 1996 and future years as if the fair value based measurement method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the measurement provisions of APB Opinion No. 25, and to provide pro-forma disclosures required by SFAS No. 123 (See note 14).

Use of Estimates in the Preparation of Financial Statements

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Segment Reporting

The Company has adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The statement requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company's chief operating decision maker in deciding the allocation of resources and assessing performance. The Company is engaged in one line of business, the scheduled and chartered transportation of passengers, which constitutes substantially all of its operating revenues.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." SFAS No. 141 addresses financial accounting and reporting for business combinations. Under this statement, all business combinations are to be accounted for under one method — the purchase method. The provisions of this statement apply to all business combinations initiated after June 30, 2001. The Company has had no business combinations subsequent to June 30, 2001.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for goodwill and other intangible assets acquired individually or in a group of other assets at acquisition and subsequent to acquisition. The provisions of this statement are required to be applied starting with fiscal years beginning after December 15, 2001, with early adoption allowed. The Company adopted this statement effective October 1, 2001 and there was no impact on the Company's financial position, results of operations and cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement will supercede SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-lived Assets to be Disposed of." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for (i) recognition and measurement of the impairment of long-lived assets to be held and used; and (ii) measurement of the impairment of long-lived assets to be disposed of by sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Management has not yet determined the impact, if any, the adoption of SFAS No. 144 will have on the Company's financial position, results of operations and cash flows.

Reclassifications

Certain reclassifications were made to the 2000 and 1999 financial statements to conform to the 2001 presentation.

2. CONCENTRATIONS

The Company has code share agreements with America West, US Airways and Midwest Express Airlines. Approximately 97%, 95% and 97% of the Company's consolidated passenger revenue for the years ended September 30, 2001, 2000 and 1999, respectively, were derived from these agreements. Accounts receivable from the Company's code share partners were 44% and 72% of total accounts receivable at September 30, 2001 and 2000, respectively.

A reduction in business travel, a slowing economy and the terrorist attacks of September 11th, 2001 all have had a significant impact on the airline industry, including America West and US Airways. Continuing declines in the economy or an inability to receive government grants and loan guarantees could have a material adverse effect on the viability of either of these airlines. A termination of the America West or US Airways code share agreements (specifically the jet contracts) may have a material adverse effect on the Company's business prospects, financial position, results of operations and cash flows.

3. AIR TRANSPORTATION SAFETY AND SYSTEM STABILIZATION ACT

As a result of the large financial losses attributed to the terrorist attacks on the United States that occurred on September 11, 2001, the Senate and House of Representatives of the United States of America passed, and the President signed into law H.R. 2926, the Air Transportation Safety and System Stabilization Act (the "Airline Stabilization Act"). The intent of the Airline Stabilization Act is to preserve the continued viability of the United States air transportation system. This legislation included support to passenger airlines in the form of a $4.5 billion grant, $10 billion in loan guarantees, and assistance with increased insurance costs. The $4.5 billion grant provided assistance for direct losses incurred as a result of the temporary shut down of the air transportation system and for incremental losses incurred through December 31, 2001 as a direct result of the terrorist attacks. The loan guarantees will be made to air carriers for which credit is not reasonably available and the guarantees are subject to certain conditions. Pursuant to the Airline

Stabilization Act, the federal government has the authority to guarantee credit instruments issued by air carriers in an amount up to $10 billion. The Airline Stabilization Act allows the government to take an equity stake in the airlines receiving federal loan guarantees as collateral. The federal government is providing insurance assistance because, as a result of September 11, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for war-risk coverage. In addition, the insurance carriers have significantly increased the premiums for this coverage as well as for aviation insurance in general. In addition, the federal government has issued war-risk coverage to U.S. air carriers for renewable 30-day periods. The Airline Stabilization Act also extended the due dates for excise and payroll tax deposits, and provides that any airline-related deposit required after September 10, 2001 and before November 15, 2001 will be treated as timely if the deposit is made on or before November 15, 2001.

The terrorist attacks of September 11, 2001 had a significant impact on the Company. Following the attacks, the air transportation system was temporarily shut down, resulting in the cancellation of more than 3,300 Mesa Air Group flights. The cancelled flights and loss of consumer confidence in the airline industry resulted in lost revenue from these cancelled flights and lower load factors and revenue yield on flights operated. The Company was also impacted by the costs incurred during the temporary shutdown that could not be avoided, the write down of receivables related to the Company's code share partners as well as the resulting impairment and restructuring charges.

In September 2001, the Company recorded as non-operating income $14.7 million associated with amounts claimed under the Airline Stabilization Act. As of September 30, 2001, the Company received $5.8 million and the remaining $8.9 million is included in accounts receivable. The amount recorded in other income represents the total amount claimed by the Company as the Company incurred losses in excess of this amount prior to September 30, 2001. Amounts paid or payable under the Airline Stabilization Act are subject to audit and adjustment by the Federal Government.

4. CHANGE IN ACCOUNTING PRINCIPLE

Effective October 1, 1999, the Company elected to change its method of accounting for engine and airframe maintenance costs on its CRJ aircraft and engine maintenance on its DeHavilland Dash 8-200 aircraft from the accrual method to the direct expense method. Under the accrual method, maintenance costs were accrued to expense on the basis of estimated future costs and estimated cycles or flight hours between major maintenance events. Implementation of the change necessitated the write-off of previously recorded accrued amounts. Effective October 1, 1999, the Company began expensing these maintenance costs as they are incurred. The cumulative effect of the change for prior years was a favorable adjustment of $18.1 million. Due to the valuation allowance at October 1, 1999, there is no tax effect related to the cumulative effect of the change. The impact of the change in fiscal 2000 totaled approximately $4.9 million, which is included as a reduction of maintenance expense.

The pro forma results, assuming that the accounting change was applied retroactively, is shown below (in thousands, except per share data):

	Year Ended September 30, 1999	
	Pro Forma	**As previously reported**
Net loss	$ (7,675)	$ (13,412)
Net loss per share: Basic and Diluted	$ (.23)	$ (.40)

5. MERGER WITH CCAIR

Effective June 9, 1999, Mesa Merger Corporation, a wholly-owned subsidiary of the Company, merged with and into CCAIR. In connection therewith, the Company issued approximately 5.9 million shares of its common stock in exchange for all of the outstanding common stock of CCAIR.

The merger was accounted for as a pooling of interests and, accordingly, the accompanying consolidated financial statements for the years ended September 30, 1999 have been restated to include the results of CCAIR.

Combined results are as follows (in thousands): Combined and separate results of Mesa and CCAIR are as follows (in thousands):

	Year Ended September 30, 1999			
	Mesa	CCAIR	Adjustments	Combined
Operating revenues ...	$ 325,559	$ 79,057	$ —	$ 404,616
Net earnings (loss)	$ (16,428)	$ 2,194	$ 822	$ (13,412)

The combined financial information contains adjustments to conform the accounting policies of the two companies. This conforming adjustment reflects the restatement of CCAIR's engine overhaul amounts to the direct expense method from the accrual method. Mesa owned 300,000 shares of common stock in CCAIR prior to the merger, which has been accounted for as a stock repurchase as of the date acquired.

6. MARKETABLE SECURITIES

The Company has a cash management program which provides for the investment of excess cash balances primarily in short-term money market instruments, intermediate-term debt instruments and common equity securities of companies operating in the airline industry.

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that all applicable investments be classified as trading securities, available for sale securities or held to maturity securities. All of the Company's investments are classified as trading securities during the periods presented and accordingly, are carried at market value with changes in value reflected in current period operations.

From time to time, the Company enters into short positions on common equity securities when management believes that the Company may capitalize on downward moves in particular securities. The Company marks short positions to market at each reporting period with changes in value reflected in current period earnings. Included in marketable securities are liabilities related to short positions on common equity securities of $3.5 and $3.0 million at September 30, 2001 and 2000, respectively. Trading gains (losses) for the period that relate to trading securities held at September 30, 2001, 2000 and 1999 were ($8.0), ($.5) and $1.2 million, respectively.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	September 30,	
	2001	2000
	(In thousands)	
Flight equipment, substantially pledged	$ 144,889	$ 226,479
Other equipment	25,354	21,653
Leasehold improvements	4,469	5,366
Furniture and fixtures	2,296	2,372
Buildings	4,126	4,126
Vehicles	1,041	1,148
	182,175	261,144
Less accumulated depreciation and amortization	(59,744)	(73,099)
Net property and equipment	$ 122,431	$ 188,045

The decrease in flight equipment is due to a reclassification of certain aircraft to aircraft and parts held for sale, aircraft remaining in flight equipment have been written down to fair value, see Note 21.

8. LINE OF CREDIT

In December 2000, the Company reached agreement with Fleet Capital for a $35 million line of credit, collateralized by the Company's inventory and receivables. The agreement, which expires in December 2003, has provisions that allow the expansion of available credit to $50 million by adding new lenders provided that there is additional collateral. The agreement also contains a financial covenant that requires the maintenance of certain financial ratios related to fixed charge coverage and total debt to capital. The Company was in compliance with these covenants at September 30, 2001. The Company will use the facility for general working capital purposes. The Company also had $3.5 million in letters of credit outstanding at September 30, 2001, which reduced the amount available under the line of credit. There was approximately $20 million outstanding under this facility at September 30, 2001. Based upon available collateral, $.6 million remained available under the line at September 30, 2001.

9. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	September 30, 2001	September 30, 2000
	(In thousands)	
Accrued compensation and benefits	$ 5,893	$ 4,663
Accrued interest	2,364	2,707
Accrued landing fees	1,540	1,478
Accrued professional fees	4,590	914
Accrued aircraft return and restructuring costs	9,525	2,657
Accrued property taxes	2,687	1,068
Accrued simulator time	2,067	810
Other	2,931	1,843
	$ 31,597	$ 16,140

10. DEFERRED CREDITS

Deferred credits include the value of lease incentives, such as consumable and rotable inventory received at lease inception, and are amortized over the life of the related lease. In May 2001, Mesa restructured various past contractual claims it had against Bombardier Regional Aircraft Division. Under this restructuring, Mesa received $25.2 million to resolve these outstanding claims. Amounts received have been classified as deferred credits and are being amortized over 15 years, the remaining weighted average life of the aircraft leases.

11. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2001	September 30, 2000
	(In thousands)	
Notes payable to manufacturers: approximately $1.5 million, including interest, due monthly through 2011. Notes provide variable rates of interest ranging from 4.09% to 7.15% at September 30, 2001, collateralized by aircraft	$ 161,804	$ 170,861
Note payable to manufacturer. Payable in 10 equal semi-annual principal payments, interest payable quarterly at 7% per annum	5,721	6,506
Mortgage note payable to bank, collateralized by real estate, due monthly, principal plus interest at 7 1/2%, due April 2009	1,059	1,087
Other	2,293	2,225
Total long-term debt	170,877	180,679
Less current portion	(52,927)	(45,146)
Net long-term debt	$ 117,950	$ 135,533

Principal maturities of long-term debt for each of the next five years and thereafter are as follows:

Years Ending September 30,	(In thousands)
2002	$ 52,927
2003	7,230
2004	7,732
2005	8,071
2006	8,362
Thereafter	86,555

At September 30, 2001, Mesa has 21 surplus Beech 1900D aircraft classified as held for sale. Of the 21, the Company has a put option to return 15 to the manufacturer. Unpaid amounts totaling $46.4 million associated with the put aircraft are classified as a current liability in the accompanying consolidated balance sheet. Due to the September 11, 2001, terrorist attacks and ongoing negotiations with the debt holder, the Company ceased making principal and interest payments. On December 19, 2001, the Company entered into an agreement with RAC to pay 50% of past due amounts totaling $2.1 million immediately, with the remaining $2.1 million due in monthly installments through June 2003.

12. COMMON STOCK PURCHASE AND RETIREMENT

In December 1999, the Company's Board of Directors authorized the Company to repurchase up to 10%, approximately 3.4 million shares, of the outstanding shares of its common stock. In January 2001, the Board approved the repurchase by the Company of up to an additional one million shares of its common stock. As of September 30, 2001, the Company has acquired and retired approximately 3.0 million shares (approximately 8.3%) of its outstanding common stock at an aggregate cost of approximately $17.6 million leaving approximately 1.4 million shares available for repurchase under the current Board authorizations. Purchases are made at management's discretion based on market conditions and the Company's financial resources.

13. INCOME TAXES

Income tax expense (benefit) consists of the following:

	Years Ended September 30,		
	2001	2000	1999
	(In thousands)		
Current:			
Federal	$ 114	$ 9	$ 422
State	655	585	175
	769	594	597
Deferred:			
Federal	(21,246)	(11,762)	—
State	(2,822)	(1,588)	—
	(24,068)	(13,350)	—
	$ (23,299)	$ (12,756)	$ 597

The difference between the actual income tax expense (benefit) and the statutory tax expense (benefit) (computed by applying the U.S. federal statutory income tax rate of 35 percent to income or loss before income taxes) is as follows:

	Years Ended September 30,		
	2001	2000	1999
	(In thousands)		
Computed "expected" tax expense (benefit)	$ (24,981)	$ 9,811	$ (4,485)
Increase (reduction) in income taxes resulting from:			
Non-deductible amortization of intangibles	807	93	207
State taxes, net of federal taxes (benefit)	(1,908)	(652)	114
Other	552	(135)	(636)
Increase (decrease) in valuation allowance	2,231	(21,873)	5,397
	$ (23,299)	$ (12,756)	$ 597

Elements of deferred income tax assets (liabilities) are as follows:

	September 30,	
	2001	2000
	(In thousands)	
Current deferred tax assets (liabilities):		
Allowance for doubtful receivables	$ 4,763	$ 206
Inventory	2,458	2,044
Other accrued expenses	4,441	6,277
Unrealized trading (gains) losses	3,144	—
Alternative minimum tax	2,458	—
Total current deferred taxes	$ 17,264	$ 8,527
Noncurrent deferred tax assets (liabilities):		
Alternative minimum tax	$ —	$ 2,820
Intangibles	798	—
Deferred credits	5,379	—
Net operating loss	43,307	46,415
General business credit carryforwards	1,730	1,730
Property and equipment	(25,383)	(46,143)
Valuation allowance	(2,231)	—
Total noncurrent deferred taxes	$ 23,600	$ 4,822

Deferred tax assets include benefits expected to be realized from the utilization of minimum tax credit carryforwards of approximately $2.4 million which do not expire and net operating loss carryforwards of approximately $95.4 million which expire at various dates between 2002 and 2021, respectively. In addition, CCAIR has $14.8 million in net operating loss carryforwards that are subject to certain limitations and expire at various dates between 2002 and 2019. During 2001, the Company established a valuation allowance of $2.2 million for certain state net operating loss carryforwards and federal general business credits that are expected to expire unutilized in the future.

14. STOCKHOLDERS' EQUITY

At September 30, 2001, the Company sponsored the following stock-based compensation plans:

In March 1993, and December 1994, the Company adopted stock option plans for outside directors. These plans originally provided for the grant of options for up to 450,000 shares of common stock at fair market value on the date of grant. These are formula-based plans under which options to acquire 168,670 shares have been granted and are still outstanding. At September 30, 2001, no options are available for grant under this plan.

On December 1, 1995, the Company adopted an employee stock option plan under the new management incentive program (Omnibus Plan) which provided for the granting of options to purchase up to 2,800,000 shares of Company common stock at the fair market value on the date of grant. On July 24, 1998, an additional 1,500,000 options were approved by the stockholders to be granted under this plan. At September 30, 2001, options to acquire 1,118,146 common shares had been granted that were still outstanding.

On June 1, 1998, the Company adopted a Key Officer Stock Option Plan, which provided for the granting of options to purchase up to 1,600,000 shares of the Company's common stock at the fair market value on the date of grant. Under this plan, 1,300,000 options have been granted, 1,112,533 options remain outstanding and 300,000 options are available for future grants.

In 1999, the Company adopted the 1999 Non-Qualified Stock Option Plan and issued options to acquire 189,527 shares in connection with the CCAIR merger. There are 46,605 options outstanding under this plan. No further options are available for grant under this plan.

Generally, options granted to employees vest over a three-year period and options granted to directors vest immediately upon grant.

Transactions involving stock options under these plans are summarized as follows:

	2001		2000		1999	
	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price	Shares (000)	Weighted Average Exercise Price
Outstanding at beginning of year:.....	4,148	$ 8.09	3,544	$ 8.24	2,799	$ 8.29
Granted	627	8.29	718	5.68	1,305	5.86
Exercised	(1,531)	6.50	(51)	3.64	(470)	2.78
Canceled/Forfeited	(798)	8.07	(63)	6.36	(90)	5.32
Outstanding at end of Year	2,446	$ 7.39	4,148	$ 8.09	3,544	$ 8.24

At September 30, 2001, the range of exercise prices for the aforementioned options was $1.91 to $12.24. The number of options exercisable at September 30, 2001 was 1,380,642, and the weighted-average exercise price of these options was $7.97.

The per share weighted-average fair value of stock options granted during 2001, 2000 and 1999 was $3.39, $3.15, and $4.24, respectively, on the grant date using a Black-Scholes option pricing model with the average assumptions: expected dividend yield 0.0%, risk-free interest rate of 4.2%, 5.9% and 4.5% and volatility of 73.5%, 54.2% and 54.2% in 2001, 2000 and 1999, respectively, and an expected life of 6 years.

The Company applies the provisions of APB No. 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized for awards made pursuant to its fixed stock option plans. Had the compensation cost for Mesa's four fixed stock-based compensation plans been determined consistent with the measurement provisions of SFAS No. 123, Mesa's net income(loss) and income(loss) per share would have been as indicated by the pro forma amounts indicated below:

	2001	2000	1999
Net income(loss) as reported	$ (48,076)	$ 58,872	$ (13,412)
Pro forma	$ (50,053)	$ 57,138	$ (18,863)
Income(loss) per share — Basic:			
As reported	$ (1.50)	$ 1.78	$ (0.40)
Pro forma	$ (1.56)	$ 1.73	$ (0.56)
Income(loss) per share — Diluted:			
As reported	$ (1.50)	$ 1.77	$ (0.40)
Pro forma	$ (1.56)	$ 1.72	$ (0.53)

15. BENEFIT PLANS

The Company has a 401(k) plan covering the employees of MAI, Air Midwest and the airline support operations (the Mesa Plan). Under the Mesa Plan, employees may contribute up to 15 percent of their annual compensation, as defined, with the Company making matching contributions of 50 percent of employee contributions up to 10 percent of annual employee compensation. Upon completing three years of service, the employee is 20 percent vested in employer contributions and the remainder of the employer contributions vest 20 percent per year thereafter. Employees become fully vested in employer contributions after completing seven years of employment. The Company has the right to terminate the 401(k) plans at any time. Contributions by the Company to the Mesa Plan for the years ended September 30, 2001, 2000 and 1999 were approximately $.9 million, $.7 million and $1.5 million, respectively.

The Company also has a 401(k) plan covering the employees of CCAIR. The CCAIR plan allows employees to defer up to 17% of annual compensation. Company matching contributions vary in accordance with labor agreements in force for contract employees. For non-contract employees, the match is determined annually by the Company's Board of Directors. Upon completing two years of service, the employee is 20 percent vested in employer contributions and the remainder of the employer contributions vest 20 percent per year. Employees become fully vested in employer contributions after completing six years of employment. Contributions by CCAIR to this plan were approximately $.2 million and $0.3 million in fiscal 2001 and 2000, respectively. There were no contributions made in fiscal 1999.

16. LEASE COMMITMENTS

At September 30, 2001, the Company leased 95 aircraft under non-cancelable operating leases with remaining terms of up to 17 years. The aircraft leases require the Company to pay all taxes, maintenance, insurance and other operating expenses. The Company has the option to terminate certain of the leases at various times throughout the lease. At September 30, 2001, four ERJ aircraft are subject to interim financing agreements. The Company expects to replace these interim arrangements with long-term operating leases and, accordingly, requirements under the interim arrangements are included in the minimum lease commitment table below. Aggregate rental expense totaled approximately $87.4, $63.0 million and $46.9 million for the years ended September 30, 2001, 2000 and 1999, respectively.

Future minimum lease payments under non-cancelable operating leases are as follows:

	(In thousands)
Years Ending September 30,	
2002	$ 106,524
2003	100,800
2004	100,638
2005	97,549
2006	92,752
Thereafter	802,555

After September 11, 2001, the Company deferred making payments on certain aircraft leases. Subsequently, the Company made payments to these lessors or negotiated new terms.

17. COMMITMENTS AND CONTINGENCIES

In fiscal 1999, the Company entered into an agreement with Embraer to acquire 36 fifty-seat ERJ-145 ("ERJ") regional jets. Deliveries commenced in April 2000 and are expected to continue through 2002 at a rate of approximately one aircraft per month. The transaction includes standard product support provisions, including training support, preferred pricing on initial inventory provisioning, maintenance support and technical publication support. The aggregate value of the 36 ERJs to be acquired under the agreement is approximately $702 million.

The Company has negotiated 10-year engine maintenance contracts with General Electric Aircraft Engines ("GE"), Rolls-Royce Allison ("Rolls") and Pratt and Whitney, Canada Aircraft Services ("PWC"). The GE contract provides coverage for engines on the Company's CRJ aircraft. The Rolls contract provides coverage for engines on the Company's ERJ aircraft. The PWC contract provides coverage for engines on the Company's Dash 8-200 aircraft. All contracts provide for payment at the time of the repair event for a fixed dollar amount per flight hour, subject to escalation based on changes in the CPI, for the number of flight hours incurred since the previous repair event.

In May 2001, the Company entered into an agreement with Bombardier Regional Aircraft Division to acquire 40 seventy and ninety-seat CRJ-700 and 900 regional jets. The Company secured the order with a $4 million deposit and will continue to make 23 monthly deposits of approximately $1.1 million through April 2003. $15 million of these deposits will be returned to the Company upon completion of permanent financing on the first 10 aircraft ($1.5 million per aircraft) and the remaining deposits will be returned upon completion of permanent financing on the last 5 aircraft ($3 million per aircraft). The Company also received options to purchase 80 additional aircraft. CRJ-700 deliveries are scheduled to begin in April 2002 and are expected to continue at a rate of one aircraft per month. CRJ 900 deliveries are scheduled to begin in April of 2003 and are expected to continue at a rate of one aircraft per month as well. The transaction includes standard product support provisions, including training support, preferred pricing on initial inventory provisioning, maintenance support and technical publication support. The aggregate value of the 40 CRJ-700 and 900's to be acquired under the agreement is approximately $919 million.

In May 2001, the Company filed a complaint in Arizona state court against the law firm of Beus Gilbert P.L.L.C. ("Beus Gilbert") arising out of Beus Gilbert's representation of the Company in a suit against United Airlines ("UAL litigation") that was settled in March 2001. The suit seeks a judgment voiding the fee arbitration provision (the "arbitration provision") of a contingency fee agreement between the Company and Beus Gilbert. The provision purports to require that all disputes as to attorneys' fees payable to Beus Gilbert be submitted to arbitration for final determination. Notwithstanding the requirement to arbitrate, the provision further purports to grant Beus Gilbert the right, "in its sole and absolute discretion," to reject the decision of the arbitrator, impose an award in the amount equal to five times the aggregate hourly rate of all attorneys and paralegals who worked on the legal matter (plus costs and expenses), and enforce that award as though it were a civil judgment. Relying on the arbitration provision, following the settlement of the UAL Litigation, Beus Gilbert demanded in excess of $16 million, which it claims to have computed by applying a 5X multiplier in the arbitration provision to fees that allegedly accrued in excess of $3 million.

The suit against Beus Gilbert alleges that the arbitration provision is void as a matter of law because it is illusory and lacks mutual consideration; that it is also void because it violates a public purpose: a fair and equitable resolution of the parties' fee dispute by an impartial arbitrator; and that it is unenforceable because it circumvents the legal and ethical requirements that attorneys' fees be reasonable. The Company seeks a determination by the Court of the fee dispute between the parties. On November 27, 2001, the court granted Beus Gilbert's motion to compel arbitration and ordered the arbitrator to decide whether the fee resulting from the 5X multiplier is reasonable. The Company plans to appeal the Courts ruling. The Company believes its claims have merit and intends to prosecute this matter vigorously.

The Company is also involved in various other legal proceedings that the Company does not believe will have a material adverse effect upon the Company's business, financial condition or results of operations, although no assurance can be given to the ultimate outcome of any such proceedings.

18. FINANCIAL INSTRUMENT DISCLOSURE

The carrying amount of cash and cash equivalents, receivables, accounts payable, accrued compensation and other liabilities approximate fair values due to the short maturity periods of these instruments. The fair value of securities is based on quoted marked prices (see note 6). The carrying value of the Company's long-term debt approximates fair value based on the current terms offered for debt of the same or similar remaining maturities. The fair value of amounts outstanding under the Company's line of credit approximates market value as it is based on variable interest rates. The difference between the estimated fair values and carrying values of the Company's financial instruments is not material.

19. VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
		(In thousands)		
Allowance for Obsolescence Deducted From Expendable Parts and Supplies				
September 30, 2001	$ 1,848	$ 648	$ —	$ 2,496
September 30, 2000	2,313	—	(465)	1,848
September 30, 1999	2,418	—	(105)	2,313
Allowance for Doubtful Accounts Deducted from Accounts Receivable				
September 30, 2001	$ 368	14,327	—	$ 14,695
September 30, 2000	—	368	—	368

20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents selected unaudited quarterly financial data (in thousands):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001(1)				
Operating revenues	$ 133,276	$ 128,445	$ 140,425	$ 121,232
Operating income (loss)	9,858	(17,033)	14,876	(78,343)
Net earnings (loss)	5,708	(12,862)	7,484	(48,406)
Net earnings (loss) per share — basic	$ 0.19	$ (0.40)	$ 0.23	$ (1.49)
Net earnings (loss) per share — diluted	$ 0.18	$ (0.40)	$ 0.23	$ (1.49)
2000(2)				
Operating revenues	$ 110,953	$ 114,617	$ 120,998	$ 125,044
Operating income	9,147	8,962	13,819	9,886
Net earnings	26,746	5,841	9,379	16,906
Net earnings per share — basic	$ 0.78	$ 0.18	$ 0.30	$ 0.52
Net earnings per share — diluted	$ 0.78	$ 0.17	$ 0.30	$ 0.52

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(1) Quarterly amounts include impairment and restructuring charges totaling $22.7 million and $58.2 million in the second and fourth quarters, respectively. Additionally, an allowance for bad debts of $14.6 million was recorded in the fourth quarter.

(2) The quarterly amounts have been restated to record the effect of the change in the method of accounting for engine and airframe maintenance costs from the accrual method to the direct expense method.

21. IMPAIRMENT AND RESTRUCTURING CHARGES

In the second quarter of fiscal 2001, the Company recognized a charge of approximately $22.7 million on 21 B1900 aircraft the Company either intends to return to the manufacturer or actively market. The charge is comprised of an impairment loss to write the aircraft down to the contractual selling price (market) less the estimated costs to prepare the aircraft for return to the manufacturer.

Due to the economic slowdown and the effects of the terrorist attacks in the fourth quarter of fiscal 2001, the Company performed an asset impairment test under the provisions of SFAS 121 related to its goodwill and B1900 turboprop aircraft. Upon discerning impairment, the Company wrote off the unamortized value of the goodwill associated with certain B1900 route systems totaling $9.3 million. The Company also took an additional charge of approximately $40.7 million related to its B1900 fleet. The charge is comprised of an impairment loss of $37.3 million on the value of 30 B1900D aircraft the Company is planning to continue to fly, an additional market impairment of $3.1 million on six aircraft the Company is holding for sale, but does not have the contractual right to return to the vendor at a specified price. The assets were written down to their estimated fair market value based upon appraisals.

In the fourth quarter of fiscal 2001, the Company made a decision to discontinue operating Jetstream Super 31 aircraft in its

Charlotte hub. As a result of this decision, the Company took a $4.9 million charge that is included in other accrued liabilities at September 30, 2001. The charge is comprised of $3.6 million related to the present value of the remaining lease payments on nine Jetstream Super 31 aircraft, $1.2 million related to the costs to buyout the remaining term of the maintenance contract associated with these aircraft and $.1 million related to costs to return the aircraft.

The Company also elected to accelerate the disposition of excess rotable inventory. During the fourth quarter, the Company hired an independent consulting firm to determine its inventory needs and to value its surplus inventory. Prior to September 11th, the Company had been selling off surplus inventory on a passive basis as opportunities arose. Subsequent to September 11th, the Company made the decision to use third party inventory brokers to sell its excess inventory. As a result of this decision, the Company took a $3.2 million charge to reduce its surplus inventory to net realizable value, less costs to sell. The surplus inventory is carried on the balance sheet under the heading of aircraft and parts held for sale.

The changes in the impairment and restructuring charges for the three fiscal years ended September 30, 2001 are as follows:

Description of Charge	Reserve Oct. 1, 1998	Provision	Utilized	Released	Reserve Sept. 30, 1999	Utilized	Reserve Sept. 30, 2000	Provision	Utilized	Reserve Sept. 30, 2001
Restructuring:										
Aircraft and related parts	$ (27,271)	$ —	$ 13,244	$ 14,027	$ —					
Severance and other	(6,834)	—	6,008	—	(826)	$ 590	$ (236)	$ —	$ 236	$ —
Ft. Worth Operations	(277)	—	277	—	—	—	—	—	—	—
Costs to return aircraft	—	(20,602)	18,400	—	(2,202)	—	(2,202)	(16,136)	13,623	(4,715)
Jetstream Super 31 lease payments	—	—	—	—	—	—	—	(3,610)	—	(3,610)
Cancellation of maintenance agreement	—	—	—	—	—	—	—	(1,200)	—	(1,200)
Market value reserve for surplus inventory	—	—	—	—	—	—	—	(3,233)	3,233	—
Impairment:										
Impairment of aircraft	—	—	—	—	—	—	—	(47,421)	47,421	—
Writeoff of Goodwill	—	(8,300)	8,300	—	—	—	—	(9,253)	9,253	—
Total	$ (34,382)	$ (28,902)	$ 46,229	$ 14,027	$ (3,028)	$ 590	$ (2,438)	$ (80,853)	$ 73,766	$ (9,525)

22. OTHER OPERATING ITEMS

Other operating items consist of the following expenses (income):

In November 1997, WestAir received written notice from UAL that WestAir's code share agreement would not be renewed. On several occasions subsequent to November 1997, management sought a reconsideration of UAL's decision not to renew the WestAir code share agreement. In January 1998, UAL confirmed that it would not reconsider renewing WestAir's code share agreement upon its expiration. WestAir had significant assets in excess of its needs upon expiration of the agreement on May 31, 1998. Accordingly, by resolution of the Board of Directors on January 10, 1998, the Company recognized a provision to provide for the cost of discontinuation of WestAir operations.

The Company recorded a provision of $72.1 million in fiscal 1997 for the estimated costs of discontinuing the WestAir, Denver and Pacific Northwest operations and the retirement or sale of aircraft, parts and equipment which were surplus to the needs of Mesa upon the expiration and early termination of this code share agreement with UAL. In addition, UAL's new code share partners for these markets did not require (and therefore purchase) the Company's aircraft and equipment associated with these operations. Consequently, the Company recorded a $33.9 million charge in fiscal 1998 to provide for costs to dispose of or reposition certain aircraft, as well as other costs to shut down the Denver system. The actual costs associated with the discontinuance of the WestAir operations was approximately $92.0 million and the remaining unused reserve of $14.0 million was reversed in fiscal 1999.

23. RELATED PARTY TRANSACTIONS

On September 9, 1998, the Company entered into an agreement with International Airline Support Group ("IASG") whereby Mesa would consign certain surplus airplane parts to IASG to sell on the open market. IASG in turn would submit proceeds to Mesa less a market-based fee. During fiscal 2001, 2000 and 1999, respectively, the Company paid IASG approximately $553,000, $611,000 and $700,000 in commissions on sales of surplus aircraft parts. Additionally, the Company has leased an aircraft auxiliary power unit from IASG at a normal commercial monthly rate of $10,000 or $120,000 per year. In fiscal 1999, the Company paid IASG approximately $250,000 in fees in connection with the shut down of WestAir and distribution and protection of certain of its assets. George Murnane, III, a member of the Board of Directors of Mesa, is a member of executive management and the Board of Directors of IASG.

The Company provides administrative support, reservation services and office space to Europe by Air, Inc. The Company billed Europe by Air approximately $64,000 and $78,000 for these services during fiscal 2001 and 2000, respectively. Jonathan Ornstein, Chairman of the Board and Chief Executive Officer of the Company, and James Swigart, a member of the Company's Board of Directors, are Chairman of the Board, and a Director and shareholder of Europe by Air, respectively.

In February 1999, the Company entered into an agreement with Barlow Capital, LLC ("Barlow"), whereby Barlow would provide financial advisory services related to aircraft leases, mergers and acquisitions, and route profitability. Mr. Onrstein, Mr. Swigart and Mr. Murnane are members of Barlow Capital, LLC. The Company paid fees totaling $120,000 and $105,000 to Barlow in fiscal 2000 and 1999, respectively. Under terms of the Barlow agreement, Barlow is required to repay these advisory fees to the Company at such time as Barlow receives financing fees for arranging leasing companies to participate in the Company's various aircraft financings under this agreement. Barlow received $627,000 and $400,000 of financing fees in fiscal 2001 and 2000, respectively, and repaid the Company $225,000 in fiscal 2001.

In December 1999, the Company retained Providence Capital, Inc. ("Providence") to assist with its stock repurchase program as well as other equity trades. Fees and/or commissions totaling approximately $200,000 and $136,000 were paid to Providence during fiscal 2001 and 2000, respectively. Herbert Denton, a member of the Company's Board of Directors, is the President and Chief Executive Officer of Providence.

On September 30, 2001 and 2000, the Company had accounts receivable under notes from Mr. Ornstein of $215,408 and $260,252, respectively. Amounts outstanding bear interest at a rate of 7.5% per annum. The promissory note requires payment on a quarterly basis through 2003 or on demand.

On September 30, 2001 and 2000, the Company had accounts receivable under notes from Michael J. Lotz, Mesa's President and Chief Operating Officer, of $82,876 and $133,019, respectively. Amounts outstanding bear interest at a rate of 7.5% per annum. The promissory note requires payment on a quarterly basis through 2003 or on demand.

During fiscal 2001, the Company assisted in the establishment of Regional Airline Partners ("RAP"), a political interest group formed to pursue the interests of regional airlines, communities served by regional airlines and manufactures of regional airline equipment. Maurice Parker, a member of the Company's Board of Directors became the initial President of RAP. During 2001, the Company paid $4,482 of Mr. Parker's expenses and has a note receivable from RAP of $17,732 at September 30, 2001.

In September 2001, the Company entered into an agreement to form UFLY, LLC, for the purpose of making strategic investments in US Airways, Inc. The Company will own a 50% share of UFLY, Jonathan Ornstein, the Company's Chairman and CEO is a shareholder/owner and managing member. In September 2001, the Company began making investments in USAirways common stock on behalf of the Company and the other investors. At September 30, 2001, the Company had a receivable of $2.6 million from the other investors for such purchases. UFLY, LLC was formally established in October 2001.

The Company will enter into future business arrangements with related parties only where such arrangements are approved by a majority of disinterested directors and are on terms at least as favorable as available from unaffiliated third parties.

MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001	Six Months Ended March 31, 2002	Six Months Ended March 31, 2001
	(Unaudited) (in thousands, except per share amounts)			
Operating revenues:				
Passenger	$ 116,063	$ 124,652	$ 223,824	$ 254,478
Freight and other	3,512	3,793	6,985	7,243
Total operating revenues	119,575	128,445	230,809	261,721
Operating expenses:				
Flight operations	62,496	64,536	121,520	132,123
Maintenance	19,452	23,170	41,447	47,917
Aircraft and traffic servicing	11,228	14,125	21,607	27,899
Promotion and sales	3,189	6,377	6,436	12,415
General and administrative	11,834	11,042	21,016	18,545
Depreciation and amortization	2,658	3,489	5,347	7,258
Impairment of long-lived assets	—	22,739	—	22,739
Total operating expenses	110,857	145,478	217,373	268,896
Operating income (expense)	8,718	(17,033)	13,436	(7,175)
Other income (expense):				
Interest expense	(2,641)	(3,920)	(4,784)	(8,030)
Interest income	525	622	730	1,082
Other income (expense)	2,697	(929)	7,441	2,291
Total other income (expense)	581	(4,227)	3,387	(4,657)
Income (loss) before income taxes and minority interest	9,299	(21,260)	16,823	(11,832)
Income taxes (benefit)	3,673	(8,398)	6,645	(4,678)
Income (loss) before minority interest	5,626	(12,862)	10,178	(7,154)
Minority interest	(441)	—	(1,327)	—
Net income (loss)	$ 5,185	$ (12,862)	$ 8,851	$ (7,154)
Income (loss) per common share:				
Basic	$ 0.16	$ (0.40)	$ 0.27	$ (0.22)
Diluted	$ 0.15	$ (0.40)	$ 0.26	$ (0.22)

See accompanying notes to consolidated financial statements

MESA AIR GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 2002	September 30, 2001
	(Unaudited) (in thousands except share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 53,280	$ 74,504
Marketable securities	28,791	8,793
Receivables, primarily traffic, net	22,000	29,449
Expendable parts and supplies, net	26,690	31,449
Aircraft and parts held for sale	65,239	63,161
Prepaid expenses and other current assets	31,495	16,392
Deferred income taxes	11,194	17,264
Total current assets	238,689	241,012
Property and equipment, net	117,785	122,431
Lease and equipment deposits	13,364	21,277
Deferred income taxes	23,591	23,600
Aircraft held for sale	13,100	13,100
Other assets	3,374	2,566
Total assets	$ 409,903	$ 423,986
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 51,841	$ 52,927
Note payable - bank	—	20,000
Accounts payable	31,175	45,193
Air traffic liability	3,376	3,506
Accrued compensation	4,578	3,893
Other accrued expenses	33,744	31,597
Total current liabilities	124,714	157,116
Long-term debt, excluding current portion	116,503	117,950
Deferred credits	49,633	45,155
Other noncurrent liabilities	525	639
Total liabilities	291,375	320,860
Minority interest	6,024	—
Stockholders' equity:		
Common stock of no par value, 75,000,000 shares authorized; 32,937,713 and 32,863,263 shares issued and outstanding, respectively	119,914	119,387
Retained earnings	(7,410)	(16,261)
Total stockholders' equity	112,504	103,126
Total liabilities, minority interest and stockholders' equity	$ 409,903	$ 423,986

See accompanying notes to consolidated financial statements.

MESA AIR GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31, 2002	Six Months Ended March 31, 2001
	(Unaudited) (in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 8,851	$ (7,154)
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	5,347	7,258
Deferred income taxes	6,079	(4,678)
Amortization of deferred credits	(2,368)	(1,568)
Impairment of long-lived assets	—	22,739
Provision for obsolete inventory	—	(500)
Provision for doubtful accounts	1,000	201
Minority interest	1,327	—
Unrealized (gain) loss on investment securities	(3,471)	558
Changes in assets and liabilities:		
Net (purchases) sales of investment securities	(16,830)	(3,953)
Receivables	6,449	(1,420)
Inventories	2,291	(3,661)
Prepaid expenses and other current assets	(13,291)	(18,481)
Accounts payable	(10,231)	(6,702)
Other accrued liabilities	4,610	8,192
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:	(10,237)	(9,169)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(6,022)	(12,580)
Costs to return aircraft held for sale	(2,022)	(11,552)
Change in other assets	(808)	1,744
Lease and equipment deposits	7,392	4,957
Proceeds from sale of assets held for sale	633	—
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:	(827)	(17,431)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(2,533)	(4,586)
Net borrowings on line of credit	(20,000)	10,412
Proceeds from issuance of common stock	527	3,096
Common stock purchased and retired	—	(5,904)
Change in deferred credits	6,846	(263)
Contribution from minority interest of consolidated subsidiary	5,000	—
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:	(10,160)	2,755
NET CHANGE IN CASH AND CASH EQUIVALENTS	(21,224)	(23,845)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	74,504	26,403
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 53,280	$ 2,558
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	$ 6,644	$ 4,110
Cash paid for income taxes	440	541

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Basis of Presentation

The accompanying unaudited consolidated financial statements of Mesa Air Group, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete set of financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the unaudited three and six-month periods have been made. Operating results for the three and six-month period ended March 31, 2002, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2002. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2001.

The consolidated financial statements include the accounts of Mesa Air Group, Inc. and its wholly owned subsidiaries, Mesa Airlines, Inc., WestAir Holdings, Inc., Air Midwest, Inc., CCAIR, Inc., Mesa Leasing, Inc., MAGI Insurance, Ltd., Regional Aircraft Services, Inc., MPD, Inc. and Freedom Airlines, Inc. as well as the accounts of UFLY, LLC, a 50% owned subsidiary of which the Company is able to exercise significant influence. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Minority Interest

In September 2001, the Company entered into an agreement to form UFLY, LLC ("UFLY"), for the purpose of making strategic investments in US Airways, Inc. In September 2001, UFLY began making investments in US Airways common stock on behalf of the Company and the other investors. In October 2001, UFLY was formally established and was capitalized with $5.0 million from the Company and $5.0 million from the other members. The Company owns 50% of UFLY. Jonathan Ornstein, the Company's Chairman and CEO, is a minority shareholder/owner and the managing member of UFLY. Mr. Ornstein receives no additional renumeration or compensation in connection with his role as managing member of UFLY, LLC. At September 30, 2001, the Company had a receivable of $2.6 million from the other investors for such purchases. Amounts included in the consolidated statements of income as minority interest reflect the after-tax portion of earnings of UFLY that are applicable to the minority interest partners.

3. Segment Reporting

The Company has adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The statement requires disclosures related to components of a company for which separate financial information is available that is evaluated regularly by a company's chief operating decision maker in deciding the allocation of resources and assessing performance. The Company is engaged in one line of business, the scheduled and chartered transportation of passengers, which constitutes nearly all of its operating revenues.

4. Marketable Securities

The Company has a cash management program that provides for the investment of excess cash balances primarily in short-term money market instruments, intermediate-term debt instruments and common equity securities of companies operating in the airline industry.

From time-to-time, the Company enters into short positions on common equity securities when management believes that the Company may capitalize on downward moves in particular securities or to hedge long positions in those securities or related securities. The Company marks short positions to market at each reporting period with changes in value reflected in current period earnings. Included in marketable securities are liabilities related to short positions on common equity securities of $4.6 and $3.5 million at March 31, 2002 and September 30, 2001, respectively. Unrealized gains and (losses) relating to trading securities held at March 31, 2002 and September 30, 2001 were $3.5 million and ($8.0) million, respectively.

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that all applicable investments be classified as trading securities, available for sale securities or held to maturity securities. All of the Company's investments are classified as trading securities during the periods presented and accordingly, are carried at market value with changes in value reflected in current period operations.

5. Aircraft and Parts Held For Sale

Aircraft and parts held for sale consists of aircraft and parts that the Company has deemed to be surplus to its operating needs. Included in this account are 21 B1900D aircraft that have been written down to fair market value. Under an agreement with Raytheon Aircraft Corporation ("RAC"), the Company has the right to return 15 B1900D aircraft to RAC at a fixed price. The Company anticipates returning all 15 of these aircraft in fiscal 2002. The Company is seeking proposals for the disposition of the remaining six B1900D aircraft. Also include in this account is excess rotable inventory valued at net realizable value, less costs to sell.

6. Deferred Credits

Deferred credits include the value of lease incentives, such as consumable and rotable inventory received at lease inception, and are amortized over the life of the related lease. In May 2001, Mesa restructured various past contractual claims it had against Bombardier Regional Aircraft Division. Under this restructuring, Mesa received $25.2 million and will continue to receive $1.1 million per month through May of 2003 to resolve these claims. Amounts received have been classified as deferred credits and are being amortized over 14 years, the remaining weighted average life of the aircraft leases.

7. Notes Payable and Long-Term Debt

At March 31, 2002, Mesa has 21 surplus Beech 1900D aircraft classified as held for sale. Of the 21, the Company has a put option to return 15 to the manufacturer. Unpaid debt totaling $44.9 million associated with the put aircraft is classified as a current liability in the accompanying consolidated balance sheet.

The Company also has a $35 million line of credit with Fleet Capital that is collateralized by the Company's inventory and receivables. There was $20 million outstanding on the line at September 30, 2001. All amounts outstanding on the line were paid off at March 31, 2002.

8. Stockholders' Equity

On February 7, 2002, the Company finalized an agreement with Raytheon Aircraft Company (the "Raytheon Agreement") to, among other things, reduce the operating costs of its Beechcraft 1900D fleet. In connection with the Raytheon Agreement and subject to the terms and conditions contained therein, Raytheon agreed to provide up to $5.5 million in annual operating subsidy payments to the Company contingent upon the Company remaining current on its payment obligations to Raytheon. Approximately $3.1 million (which included $1.9 million relating to fiscal 2001 and the first quarter of fiscal 2002) was recorded as a reduction to flight operations and maintenance expense during the quarter ended March 31, 2002. In return, the Company granted Raytheon an option to purchase up to 233,068 warrants at a purchase price of $1.50 per warrant. Each warrant entitles the holder to purchase one share of Common Stock at an exercise price of $10.00 per share. Each of the warrants is exercisable at any time over a three-year period following its date of purchase. Absent an event of default by the Company in which case vesting is accelerated, the option to purchase the warrants vests concurrently with Raytheon's payment of the related annual operating subsidy for the following periods or January 15 of each year, whichever comes first. The warrants vest according to the following schedule: 13,401 warrants for a portion of 2001; 116,534 warrants for fiscal year 2002; 58,267 warrants for fiscal year 2003 and 44,866 warrants for fiscal year 2004. As of March 31, 2002, Raytheon has exercised its option to purchase the 2001 warrants.

9. Weighted Average Shares Outstanding

	Three Months Ended March 31,		Six Months Ended March 31,	
	2002	2001	2002	2001
	(in thousands)			
Weighted average shares — basic	32,840	32,051	32,818	31,985
Weighted average shares — diluted	34,037	32,051	33,545	31,985

10. Impairment of Long-Lived Assets

In the second quarter of fiscal 2001, the Company recognized a charge of approximately $22.7 million on 21 B1900 aircraft the Company either intends to return to the manufacturer or actively market. The charge is comprised of an impairment loss to write the aircraft down to the contractual selling price (market) less the estimated costs to prepare the aircraft for return to the manufacturer.

Due to the economic slowdown and the effects of the terrorist attacks in the fourth quarter of fiscal 2001, the Company performed an asset impairment test under the provisions of SFAS 121 related to its B1900 turboprop aircraft. Upon discerning impairment, the Company wrote off approximately $40.7 million related to its B1900 fleet. The charge is comprised of an impairment loss of $37.3 million related to 30 B1900D aircraft the Company is planning to continue to fly and an additional market impairment of $3.1 million on six aircraft the Company is holding for sale, but does not have the contractual right to return to the vendor at a specified price. The assets were written down to their estimated fair market value based upon appraisals.

In the fourth quarter of fiscal 2001, the Company made a decision to discontinue operating Jetstream Super 31 aircraft at its Charlotte hub. As a result of this decision, the Company took a $4.9 million charge at September 30, 2001. The charge is comprised of $3.6 million related to the present value of the remaining lease payments on nine Jetstream Super 31 aircraft, $1.2 million related to the costs to buyout the remaining term of the maintenance contract associated with these aircraft and $.1 million related to costs to return the aircraft. Effective April 18, 2002, the Company discontinued flying the Jetstream aircraft and commenced satisfying return condition obligations.

The Company also elected to accelerate the disposition of excess rotable inventory. During the fourth quarter of fiscal year 2001, the Company hired an independent consulting firm to determine its inventory needs and to value its surplus inventory. Prior to September 11th, the Company had been selling off surplus inventory on a passive basis as opportunities arose. Subsequent to September 11th, the Company made the decision to use third party inventory brokers to sell its excess inventory. As a result of this decision, the Company took a $3.2 million charge to reduce its surplus inventory to net realizable value, less costs to sell.

The changes in the impairment and restructuring charges for the period ended March 31, 2002 are included below:

Charge	Reserve Oct. 1, 2000	Provision	Utilized	Reserve Sept. 30, 2001	Utilized	Reserve Dec. 31, 2001	Utilized	Reserve Mar. 31, 2002
Restructuring:								
Severance and other	$ (236)	$ —	$ 236	$ —	$ —	$ —	$ —	$ —
Costs to return aircraft	(2,202)	(16,136)	13,623	(4,715)	208	(4,507)	1,953	(2,554)
Jetstream Super 31 lease payments	—	(3,610)	—	(3,610)	—	(3,610)	69	(3,541)
Cancellation of maintenance agreement	—	(1,200)	—	(1,200)	—	(1,200)	—	(1,200)
Market value reserve for surplus inventory	—	(3,233)	3,233	—	—	—	—	—
Impairment:								
Impairment of aircraft	—	(47,421)	47,421	—	—	—	—	—
Writeoff of Goodwill	—	(9,253)	9,253	—	—	—	—	—
Total	$ (2,438)	$ (80,853)	$ 73,766	$ (9,525)	$ 208	$ (9,317)	$ 2,022	$ (7,295)

11. Contingency

The Company is in discussions with various lessors regarding the cost of operating of its Dash 8-100 aircraft. While these discussions have been ongoing, the Company has not made payments on the leases associated with these aircraft and is currently in default under those lease agreements. The Company has accrued approximately $3.1 million related to past due amounts on these leases, which are included in other accrued expenses at March 31, 2002.

12. Subsequent Event

In April, the CCAir pilots, represented by the Air Line Pilots Association International (ALPA), overwhelmingly (72%) voted in favor of ratifying a new five-year labor agreement. The agreement, however, in accordance with ALPA bylaws, still requires execution by the national President of ALPA. The new labor agreement includes an agreement to add regional jet aircraft at CCAir if the Company is awarded flying under the recently approved "Jets for Jobs" initiative at US Airways. CCAir is currently in negotiations with US Airways for such additional aircraft.

13. Reclassifications

Certain 2001 amounts previously reported have been reclassified to conform with the 2002 presentation.

Forward-Looking Statements

This Form 10-Q contains certain statements including, but not limited to, information regarding the replacement, deployment, and acquisition of certain numbers and types of aircraft, and projected expenses associated therewith; costs of compliance with FAA regulations and other rules and acts of Congress; the passing of taxes, fuel costs, inflation, and various expenses to the consumer; the relocation of certain operations of Mesa; the resolution of litigation in a favorable manner and certain projected financial obligations. These statements, in addition to statements made in conjunction with the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," and similar expressions, are forward-looking statements within the meaning of the Safe Harbor provision of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. These statements relate to future events or the future financial performance of Mesa and only reflect Management's expectations and estimates. The following is a list of factors, among others, that could cause actual results to differ materially from the forward-looking statements: changing business conditions in certain market segments and industries; changes in Mesa's code sharing relationships; the inability of either America West or US Airways to pay its obligations under the code share agreements; the ability of Mesa to successfully retire portions of its turboprop fleet; an increase in competition along the routes Mesa operates or plans to operate; delays in completion by the manufacturer of the ordered and yet-to-be delivered aircraft; changes in general and regional economic conditions; changes in fuel price; the increased cost and reduced availability of insurance Mesa's relationship with employees and the terms of future collective bargaining agreements; and the impact of current and future laws, additional terrorist attacks; Congressional investigations, and governmental regulations affecting the airline industry and Mesa's operations; bureaucratic delays; amendments to existing legislation; consumers unwilling to incur greater costs for flights; unfavorable resolution of negotiations with municipalities for the leasing of facilities; and risks associated with litigation outcomes. One or more of these or other factors may cause Mesa's actual results to differ materially from any forward-looking statement. Mesa is not undertaking any obligation to update any forward -looking statements contained in this Form 10-Q.

GENERAL

Mesa Air Group, Inc. and its subsidiaries (collectively referred to herein as "Mesa") is an independently owned regional airline serving 150 cities in 36 states, Canada and Mexico. Mesa operates a fleet of 120 aircraft and has approximately 879 daily departures.

Mesa's airline operations are currently conducted by three regional airlines utilizing hub-and-spoke systems. Mesa Airlines, Inc. ("MAI"), a wholly owned subsidiary of Mesa, operates as America West Express under a code sharing agreement with America West Airlines, Inc. ("America West"), as US Airways Express under code sharing agreements with US Airways, Inc. ("US Airways") and as Frontier Jet Express under a code sharing agreement with Frontier Airlines, Inc. ("Frontier). Air Midwest, Inc., a wholly owned subsidiary of Mesa, also operates under a code sharing agreement with US Airways and flies as US Airways Express and also operates an independent division, Mesa Airlines, from a hub in Albuquerque, New Mexico. Air Midwest also has a code sharing agreement with Midwest Express in Kansas City on flights operated as US Airways Express. CCAIR, Inc. ("CCAIR"), a wholly owned subsidiary of Mesa, operates under a code share agreement with US Airways that permits CCAIR to operate under the name US Airways Express and to charge their joint passengers on a combined basis with US Airways. In addition, Freedom Airlines, Inc., a wholly owned subsidiary of Mesa Air Group, Inc., has applied for and received a certificate of public convenience and necessity issued by the DOT pursuant to 49 U.S.C. 41102. Freedom is in the process of obtaining an air carrier operating certificate issued by the FAA under Part 121 of the Federal Aviation Regulations.

For the quarter ended March 31, 2002, approximately 75% of Mesa's passenger revenues were derived from cost plus agreements. All of MAI's America West Express operations and US Airways Express jet operations are on a cost plus basis. The percentage of revenue generated under cost plus agreements is expected to increase beyond the current fiscal year as Mesa adds additional regional jets to its America West Express operation. The Company's code sharing agreement with America West expires in 2012. The Company's code sharing agreements with US Airways expire on various dates from 2003 through 2005, with the regional jet agreement expiring in 2008. Mesa derives the remainder of its passenger revenues from a combination of local fares, through fares and joint fares.

During fiscal 2002 several significant events have occurred:

The Company reached an agreement with General Electric Capital Corporation to enter into leveraged lease transactions with respect to 10 64-seat Bombardier CRJ-700 and 10 84-seat CRJ-900 aircraft. Deliveries of these aircraft are currently scheduled to begin late in the third quarter of fiscal 2002. Mesa has orders for 40 of the CRJ-700/900 aircraft to be operated under a contract with America West Airlines. The aircraft are larger versions of the CRJ-200, which MAI currently operates.

In January, America West Airlines, one of the Company's major code share partners, closed a term loan in the amount of $429 million and completed arrangements for more than $600 million in concessions, financing and financial assistance following final approval by the Air Transportation Stabilization Board of approximately $380 million in loan guarantees.

In February, the Company took delivery of two Bombardier CRJ-200 aircraft under short-term operating leases. These aircraft are being utilized in the Company's Frontier Jet Express System. On May 1, 2002, Mesa was operating five CRJ-200 jet aircraft as Frontier Jet Express flying from Denver to the following cities: Houston, San Jose, St. Louis, Ontario, San Diego and Minneapolis.

On February 7, 2002, the Company finalized an agreement with Raytheon Aircraft Company (the "Raytheon Agreeme ɔ, among other things, reduce the operating costs of its Beechcraft 1900D fleet. In connection with the Raytheon Agreement and subject t terms and conditions contained therein, Raytheon agreed to provide up to $5.5 million in annual operating subsidy payments to the C any contingent upon the Company remaining current on its payment obligations to Raytheon. Approximately $3.1 million (which include .9 million relating to fiscal 2001 and the first quarter of fiscal 2002) was recorded as a reduction to flight operations and maintenanc ense during the quarter ended March 31, 2002. In return, the Company granted Raytheon an option to purchase up to 233,068 warrants at chase price of $1.50 per warrant. Each warrant entitles the holder to purchase one share of Common Stock at an exercise price of $10.00 hare. Each of the warrants is exercisable at any time over a three-year period following its date of purchase. Absent an event of default : Company in which case vesting is accelerated, the option to purchase the warrants vests concurrently with Raytheon's payment of the d annual operating subsidy for the following periods or January 15 of each year, whichever comes first. The warrants vest accordin he following schedule: 13,401 warrants for a portion of 2001; 116,534 warrants for fiscal year 2002; 58,267 warrants for fiscal year 20 d 44,866 warrants for fiscal year 2004. As of March 31, 2002, Raytheon has exercised its option to purchase the 2001 warrants.

The Company signed a memorandum of understanding with Pratt & Whitney Canada to enter into a new fleet manage: program covering the maintenance of Beech 1900D engines. Pursuant to the agreement, the Company will sell certain assets of its t Turbine Services unit, as well as all spare PT6 engines. The tentative agreement with Pratt & Whitney Canada covers 58 Beech 19 and 116 engines. Finalization of the fleet management program is subject to definitive documentation.

In April, the CCAir pilots, represented by the Air Line Pilots Association International (ALPA), overwhelmingly (72% ed in favor of ratifying a new five-year labor agreement. The agreement, however, in accordance with ALPA bylaws, still requires exec by the national President of ALPA. The new labor agreement includes an agreement to add regional jet aircraft at CCAir if the Company arded flying under the recently approved "Jets for Jobs" initiative at US Airways. CCAir is currently in negotiations with US Airways ch additional aircraft.

The following tables set forth quarterly and year to date comparisons for the periods indicated below:

OPERATING DATA

	Three Months Ended		Six Months Ended	
	March 31, 2002	**March 31, 2001**	**March 31, 2002**	**March 31, 2001**
Passengers	1,179,380	1,086,176	2,311,450	2,308,537
Available seat miles (000's)	835,976	817,121	1,587,076	1,629,917
Revenue passenger miles (000's)	444,235	406,864	856,270	857,624
Load factor	53.1%	49.8%	54.0%	52.6%
Yield per revenue passenger mile (cents)	26.9	31.6	27.0	30.5
Revenue per available seat mile (cents)	14.3	15.7	14.5	16.1
Operating cost per available seat mile (cents)*	13.3	15.0	13.7	15.1
Average stage length (miles)	292.1	274.0	284.6	269.8
Number of operating aircraft in fleet	120	127	120	127
Gallons of fuel consumed	22,183,738	21,408,862	42,276,178	42,827,427
Block hours flown	87,623	96,688	169,728	197,351
Departures	71,204	79,940	140,331	163,779

* Excludes second quarter 2001 non-recurring impairment charge

FINANCIAL DATA

	Three Months Ended				Six Months Ended			
	March 31, 2002		March 31, 2001		March 31, 2002		March 31, 2001	
	Costs per ASM(cents)	% of total Revenues	Costs per ASM(cents)	% of total Revenues	Costs per ASM(cents)	% of total Revenues	Costs per ASM(cents)	% of total Revenues
Flight operations	7.48	52.3%	7.90	50.2%	7.66	52.6%	8.11	50.5%
Maintenance	2.33	16.3%	2.84	18.0%	2.61	18.0%	2.94	18.3%
Aircraft and traffic servicing	1.34	9.4%	1.73	11.0%	1.36	9.4%	1.71	10.7%
Promotion and sales	0.38	2.7%	0.78	5.0%	0.41	2.8%	0.76	4.7%
General and administrative	1.42	9.9%	1.35	8.6%	1.32	9.1%	1.14	7.1%
Depreciation and amortization	0.32	2.2%	0.43	2.7%	0.34	2.3%	0.45	2.8%
Impairment of long-lived assets	0.00	0.00%	2.78	17.7%	0.00	0.0%	1.40	8.7%
Total operating expenses	13.26	92.7%	17.80	113.3%	13.70	94.2%	16.50	102.7%
Interest expense	0.32	2.2%	0.48	3.1%	0.30	2.1%	0.49	3.1%

RESULTS OF OPERATIONS

Operating Revenues:

In the quarter and six months ended March 31, 2002, operating revenues decreased by $8.9 million (6.9%), and $30.9 million (11.8%), respectively, as compared to the quarter and six months ended March 31, 2001. This decrease was due primarily to the Company's decision to accelerate planned reductions in turboprop flying capacity.

Operating Expenses

Flight Operations

In the quarter ended March 31, 2002, flight operations expense decreased 3.2% to $62.5 million (7.48 cents per ASM) from $64.5 million (7.90 cents per ASM) for the comparable period in 2001. In the six months ended March 31, 2002, flight operations expense decreased 8.0% to $121.5 million (7.66 cents per ASM) from $132.1 million (8.11 cents per ASM) from the comparable period in 2001. The overall decrease in expense is primarily attributable to the reduction in turboprop flying as well as cost reduction initiatives related to the turboprop operation, which included $0.6 million associated with the Raytheon agreement. The decrease in cost per ASM is a result of an increase in the proportion of ASMs generated by regional jets, which have a lower cost per ASM, and the turboprop initiatives.

Maintenance Expense

In the quarter ended March 31, 2002, maintenance expense decreased 16.0% to $19.5 million (2.33 cents per ASM) from $23.2 million (2.84 cents per ASM) for the comparable period in 2001. In the six months ended March 31, 2002, maintenance expense decreased 13.5% to $41.4 million (2.61 cents per ASM) from $47.9 million (2.94 cents per ASM) for the comparable period in 2001. The overall decrease in maintenance costs is primarily the result of $2.0 million in benefits received as part of the cost reduction agreement reached with Raytheon Aerospace, and a reduction in turboprop flying. The decrease in cost per ASM is a result of an increase in the proportion of regional jet ASMs and turboprop cost reductions.

Aircraft and Traffic Service Expense

In the quarter ended March 31, 2002, aircraft and traffic servicing expense decreased by 20.5% to $11.2 million (1.34 cents per ASM) from $14.1 million (1.73 cents per ASM) during the second quarter of fiscal 2001. In the six months ended March 31, 2002, aircraft and traffic servicing expense decreased by 22.6% to $21.6 million (1.36 cents per ASM) from $27.9 million (1.71 cents per ASM) for the corresponding period in 2001. The decrease in aircraft and traffic service expense is primarily due to the reduction in turboprop flying. The reduction in cost per ASM is a result of an increase in the proportion of regional jet ASMs.

Promotion and Sales

In the quarter ended March 31, 2002, promotion and sales expense decreased 50.0% to $3.2 million (0.38 cents per ASM) from $6.4 million (0.78 cents per ASM) from the prior year's comparable quarter. In the six months ended March 31, 2002, promotion and sales expense decreased 48.2% to $6.4 million (0.41 cents per ASM) from $12.4 million (0.76 cents per ASM) from the prior year's comparable period. The decrease is primarily a result of the decrease in booking fees and franchise fees paid to the Company's Code Share partners as a result of the decrease in passenger traffic. Also, the Company's contract with America West and its Jet Contract with US Airways eliminates booking fees and travel agency commissions being charged directly to the Company and as such, these costs per ASM are expected to decline as the America West Express and US Airways jet operations grow.

General and Administrative Expense

In the quarter ended March 31, 2002, general and administrative expense increased 7.2% to $11.8 million (1.42 cents per ASM) from $11.0 million (1.35 cents per ASM) during the comparable quarter of the previous fiscal year. In the six months ended March 31, 2002, general and administrative expense increased 13.3% to $21.0 million (1.32 cents per ASM) from $18.5 million (1.14 cents per ASM) during the comparable period of the previous fiscal year. The increase in the quarter is primarily due to higher passenger liability insurance premiums as a result of the events of September 11th and increases in property taxes associated with the additional jets added to Mesa's fleet since the first quarter of fiscal 2001.

Depreciation and Amortization

In the quarter ended March 31, 2002, depreciation and amortization decreased 23.8% to $2.7 million (0.32 cents per ASM) as compared to $3.5 million (0.43 cents per ASM) for the quarter ended March 31, 2001. In the six months ended March 31, 2002, depreciation and amortization decreased 26.3% to $5.3 million (0.34 cents per ASM) as compared to $7.3 million (0.45 cents per ASM) for the quarter ended March 31, 2001. The decrease is primarily due to the cessation of depreciation on aircraft and parts held for sale and reduced depreciation expense on the aircraft that were impaired at September 30, 2001. The Company also is no longer incurring goodwill amortization expense as all remaining goodwill was written off at September 30, 2001.

Interest Expense

The decrease in interest expense of $1.3 million from $3.9 million in the second quarter of fiscal 2001 to $2.6 million in the second quarter of fiscal 2002 and the decrease in interest expense of $3.2 million from $8.0 million in the six months ending March 31, 2001 to $4.8 million in the six months ending March 31, 2002 is due to reduced interest rates as the majority of the Company's B1900D fleet is financed at variable interest rates.

Other Income

In the quarter ended March 31, 2002, other income increased 390.3% to $2.7 million as compared to $(1.0) million for the quarter ended March 31, 2001. In the six months ended March 31, 2002, other income increased 224.8% to $7.4 million as compared to $2.3 million for the six months ended March 31, 2001. The increase in other income is primarily attributable to an increase in investment gains from the Company's portfolio of aviation related securities.

Minority Interest

Amounts included in minority interest reflects the after-tax portion of earnings of UFLY, LLC that are applicable to the minority interest partners. In the six months ended March 31, 2002 UFLY had realized and unrealized gains of $4.4 million.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2002, Mesa's cash and cash equivalents and marketable securities totaled $82.1 million, compared to $83.3 million at September 30, 2001. Mesa's operating activities for the six months ended March 31, 2002 (excluding investment activity) provided net cash of $10.1 million, which included reductions in accounts payable of $10.2 million. The Company also repaid $20 million outstanding under its bank line of credit. Offsetting these cash outflows were the receipt of $6.8 million in government grant monies and $7.4 million of net deposits received from aircraft manufacturers. The Company's cash and cash equivalents and marketable securities are intended to be used for working capital, capital expenditures and acquisitions.

In addition, the Company has a $35 million line of credit facility with Fleet Capital, which expires on December 7, 2003. The line of credit is secured by certain of the Company's inventory and receivables, and the amount available varies from time to time based on the then current value of the collateral. As of March 31, 2002, the Company had approximately $26.1 million available under the line of credit. Including $6.6 million pledged against various letters of credit issued on behalf of the Company, the net availability under the line was $19.5 million. There were no other amounts outstanding as of March 31, 2002.

The Company had receivables of approximately $22.0 million at March 31, 2002, which consisted primarily of amounts due from code sharing partners America West and US Airways and passenger ticket receivables due through the Airline Clearing House. Under the terms of its pro-rate code share agreements, the Company receives a substantial portion of its revenues through the clearinghouse.

Mesa has significant long-term leveraged lease obligations, primarily relating to its aircraft fleet. These leases are classified as operating leases and therefore are not reflected as liabilities in the Company's consolidated balance sheets. At March 31, 2002, Mesa had 106 leases with an average remaining term of approximately 11 years. Future minimum lease obligations due under all long-term leases were approximately $1.4 billion at March 31, 2002. At a 7.9% discount, these obligations would be approximately $821 million.

The Company is in discussions with various lessors regarding the cost of operating of its Dash 8-100 aircraft. While these discussions have been ongoing, the Company has not made payments on the leases associated with these aircraft and is currently in default under those lease agreements. The Company has accrued $3.1 million related to these leases, which is included in other accrued expenses at March 31. 2002.

In December 1999, the Company's Board of Directors authorized the Company to repurchase up to 10%, approximately 3.4 million shares, of the outstanding shares of its Common Stock. In January 2001, the Board approved the repurchase by the Company of up to an additional one million shares of its Common Stock. The Company did not repurchase any stock during the quarter ended March 31, 2002. As of March 31, 2002, the Company has acquired approximately 3.0 million shares (approximately 8.3%) of its outstanding Common Stock at an average price of $5.87 per share with an aggregate cost of approximately $17.6 million leaving approximately 1.4 million shares available for repurchase under the current Board authorizations. Purchases are made at management's discretion based on market conditions and the Company's financial resources.

Management believes that the Company will have adequate cash flow to meet its operating needs. This is a forward-looking statement. Actual cash flows could materially differ from this forward looking statement as a result of many factors, including the termination of one or more code share agreements; the inability of a code share partner to meet its obligations to Mesa when due; failure to sell, dispose of, or redeploy excess aircraft in a timely manner; a substantial decrease in the number of routes allocated to the Company under its code share agreements with its code share partners; reduced levels of passenger revenue, additional taxes or costs of compliance with governmental regulations; fuel cost increases; increases in competition; additional terrorist attacks; increases in interest rates; general economic conditions and unfavorable settlement of existing litigation.

AIRCRAFT

The following table lists the aircraft owned and leased by Mesa for scheduled operations as of March 31, 2002:

Type of Aircraft	Owned	Leased	Total	Operating on March 31, 2002	Passenger Capacity
Canadair Regional Jet	—	34	34	34	50
Embraer Regional Jet	—	27	27	27	50
Beechcraft 1900D	51	7	58	40	19
Jet Stream Super 31	—	9	9	2(1)	19
Dash 8-100	—	7	7	5	37
Dash 8-200	—	12	12	12	37
Embraer EMB-120	—	6	6	—	30
	51	102	153	120	

(1) At September 30, 2001, Management announced the decision to retire the Jet Stream Super 31 aircraft. On April 18, 2002, the Company discontinued operating the Jet Stream Super 31 aircraft.

Frontier Jet Express
July 2002
Total Estimated Expense

Location	Total Gallons ITP	ITP Cost	Fuel Tax	Fuel Cost	Total Cost	Paid Expense	Accrued Expense
DEN	321,643	14,668.00	26,053.08	247,544.66	288,265.75	273,597.75	14,668.00
IAH	48,842	3,418.94	-	35,428.11	38,847.05	35,428.11	3,418.94
MSP	14,848	1,652.40	1,408.33	11,304.44	14,365.18	14,365.18	(0.00)
ONT	63,505	2,984.74	2,794.22	47,870.07	53,649.02	738.07	52,910.95
SAN	19,484	770.50	1,528.52	14,500.43	16,799.45	16,028.95	770.50
SJC	74,516	2,980.64	6,665.46	55,817.78	65,463.88	65,463.88	(0.00)
STL	61,092	2,451.91	2,688.05	44,209.23	49,349.18	48,456.40	892.78
F9 Total	**603,930**	**0.0479**	**0.0681**	**0.7562**	**$ 526,739.51**	**$ 454,078.34**	**72,661.17**

Average Blended price per gallon	$ 0.8722

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Prepared by: Steven Gloyer